MAR 21 '89 14:[illegible] FBI [illegible]

FD-36 (Rev. 8-29-85)

FBI

TRANSMIT VIA:
- ☐ Teletype
- ☐ Facsimile
- ☐ ______

PRECEDENCE:
- ☒ Immediate
- ☐ Priority
- ☐ Routine

CLASSIFICATION:
- ☐ TOP SECRET
- ☐ SECRET
- ☐ CONFIDENTIAL
- ☐ UNCLAS E F T O
- ☒ UNCLAS

Date 3/15/89

FM LOS ANGELES (56-NEW) 11:45 (PST) 3/20/89 MFP

TO DIRECTOR, FBI IMMEDIATE

ATTN: SSA [redacted] 11:50 (PST) 3/21/89 TMH

PHOENIX 1:05 (PST) 3/21/89

BT

UNCLAS 77-5534-10

CHARLES KEATING; CHAIRMAN; AMERICAN CONTINENTAL CORPORATION, PHOENIX, ARIZONA; UNSUB; PRINCIPALS AND OFFICERS OF AMERICAN CONTINENTAL CORPORATION; UNSUB; PRINCIPALS AND OFFICERS OF LINCOLN SAVINGS AND LOAN, IRVINE, CALIFORNIA; ELECTION LAW VIOLATION; OO: LOS ANGELES

RETELCALL OF SSRA [redacted] TO SSA [redacted] FBIHQ, 3/15/89.

REQUEST OF THE BUREAU: IT IS REQUESTED THAT THE FOLLOWING INFORMATION BE ANALYZED AND PRESENTED TO THE DEPARTMENT OF JUSTICE TO DETERMINE IF AN INVESTIGATION SHOULD BE CONDUCTED.

INFORMATION HAS BEEN RECEIVED FROM AUSA [redacted] UNITED STATES ATTORNEY'S OFFICE, LOS ANGELES, CALIFORNIA, INDICATING DURING A CURRENT INVESTIGATION OF LINCOLN SAVINGS AND LOAN FOR BANK FRAUD AND EMBEZZLEMENT, IT HAS BEEN DETERMINED

GKM/kah
(1)

PHX- 56C-new/

56C-181-1

SEARCHED ...... INDEXED ......
SERIALIZED ...... FILED ......

MAR 21 1989

Approved: [illegible] Transmitted Fax at SARA Per [illegible]
(Number) (Time) [redacted]

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LARGE CAMPAIGN CONTRIBUTIONS WERE PAID TO VARIOUS U.S. SENATORS THROUGHOUT THE COUNTRY. ADDITIONAL INVESTIGATION HAS DETERMINED THE FOLLOWING:

THE FUNDS WERE RAISED FROM VARIOUS FUND RAISERS SPONSORED BY LINCOLN SAVINGS AND LOAN AND AMERICAN CONTINENTAL CORPORATION. IN ADDITION, MONEY WAS PAID TO THE SENATORS FROM POLITICAL ACTION COMMITTEES, PRIMARILY FINANCED BY THE ABOVE INSTITUTIONS AND ITS OFFICERS AND EMPLOYEES.

THE U.S. SENATORS KNOWN TO HAVE RECEIVED AN EXCESS OF $295,000 FROM THE ABOVE INSTITUTIONS IN 1986 ARE AS FOLLOWS: ALLAN CRANSTON (D)CALIFORNIA; JOHN GLENN (D)OHIO; THOMAS MCCAIN (D)ARIZONA; DENNIS DECONCINI (D)ARIZONA; AND DONALD RIEGLE (D)MICHIGAN.

ALLEGEDLY, IN 1987 THE ABOVE SENATORS LOBBIED ON BEHALF OF LINCOLN SAVINGS AND LOAN, AND MET WITH OFFICIALS OF THE FEDERAL HOME LOAN BANK BOARD IN SAN FRANCISCO, CALIFORNIA. THIS OFFICE HAD BEGAN REGULATORY ACTION AGAINST LINCOLN SAVINGS AND LOAN AND BEGAN ATTEMPTS TO RE-ORGANIZE AND CHANGE THE SAVINGS AND LOAN PROCEDURES. THE SENATORS ALLEGEDLY ALSO MET WITH FEDERAL HOME LOAN BANK BOARD MEMBERS LOCATED IN WASHINGTON, D.C. JURISDICTION OF LINCOLN SAVINGS AND LOAN WAS TRANSFERRED TO THE JURISDICTION OF THE WASHINGTON, D.C., BOARD OFFICE. THIS ACTION WAS HIGHLY IRREGULAR AND UNPRECEDENTED IN THE SAVINGS AND LOAN INDUSTRY. LINCOLN SAVINGS AND LOAN IS NOW THE ONLY FINANCIAL INSTITUTION

BEING OVERSEEN BY THE WASHINGTON, D.C. OFFICE OF THE FEDERAL HOME LOAN BANK BOARD.

LINCOLN SAVINGS AND LOAN AND OFFICERS FROM AMERICAN CONTINENTAL CORPORATION HAD PREVIOUSLY MADE COMPLAINTS TO THE WASHINGTON D.C. BASED BANK BOARD, STATING THE SAN FRANCISCO OFFICE OF THE BANK BOARD WAS TOO HARD ON THE POLICIES OF LINCOLN SAVINGS AND LOAN. IN ADDITION, A FORMER CERTIFIED PUBLIC ACCOUNTANT (CPA) [redacted] WHO AT ONE b6 b7C
TIME [redacted] LINCOLN SAVINGS AND LOAN, TESTIFIED BEFORE THE THREE MEMBER WASHINGTON, D.C. BANK BOARD. IN HIS TESTIMONY, HE STATED THE SAN FRANCISCO BRANCH WAS REGULATING LINCOLN SAVINGS AND LOAN TOO HARSHLY. THIS TESTIMONY AND THE ALLEGED CONGRESSIONAL INFLUENCE WERE INSTRUMENTAL IN THE DECISION OF THE BANK BOARD TO SWITCH JURISDICTION FROM SAN FRANCISCO TO WASHINGTON, D.C. THE FACT THAT THE ABOVE U.S. SENATORS ALLEGEDLY TOOK IT UPON THEMSELVES TO LOBBY ON BEHALF OF LINCOLN SAVINGS AND LOAN APPEARS TO INDICATE THE POSSIBILITY OF AN IMPROPER RELATIONSHIP BETWEEN LINCOLN SAVINGS AND LOAN, AMERICAN CONTINENTAL CORPORATION, AND THE ABOVE CONGRESSMEN. THE ONLY CONGRESSMAN MENTIONED ABOVE WHO WOULD HAVE DIRECT INTEREST IN THE SAVINGS AND LOAN ISSUE WOULD BE DONALD RIEGLE FROM MICHIGAN WHO WAS RECENTLY APPOINTED AS THE HEAD OF THE SENATE BANKING COMMITTEE. THE OTHER FOUR SENATORS DO NOT APPEAR TO HAVE ANY DIRECT CONTACT WITH BANKING OR SAVINGS AND LOAN COMMITTEES OF CONGRESS.

IN ADDITION TO THE ABOVE, ON 3/9/89, CONTACT WAS MADE WITH [redacted], [redacted] THE CALIFORNIA SAVINGS AND LOAN INDUSTRY, AT WHICH TIME HE ADVISED HE AND OTHERS HAVE DONE EXTENSIVE RESEARCH INTO THE ACTIVITIES OF LINCOLN SAVINGS AND LOAN AND THEIR RELATIONSHIP WITH LEGISLATORS. THEY ALSO HAVE DONE RESEARCH INTO THE REASONS BEHIND SWITCHING OF JURISDICTION FROM SAN FRANCISCO TO WASHINGTON, D.C. INFORMATION THEY HAVE RECEIVED INDICATES A STRONG POSSIBILITY THAT VARIOUS OFFICERS AND EMPLOYEES OF AMERICAN CONTINENTAL CORPORATION AND/OR LINCOLN SAVINGS AND LOAN MAY HAVE CONTRIBUTED DIRECTLY TO THE POLITICAL ACTION COMMITTEES AND FUND RAISERS RESULTING IN MONEY GOING TO THE LEGISLATORS. IN ADDITION, DUE TO UNUSUALLY HIGH SALARIES PAID TO EMPLOYEES AND OFFICERS OF AMERICAN CONTINENTAL CORPORATION AND LINCOLN SAVINGS AND LOAN, THEY BELIEVE THE REASON WAS TO GIVE THEIR CHAIRMAN, CHARLES KEATING, ULTIMATE POWER TO REQUEST AND DIRECT ANY POLITICAL CONTRIBUTIONS TO BE MADE BY THE OFFICERS. SOME SALARIES ARE IN THE AREA OF $700,000 TO $800,000 PER YEAR.

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IN ADDITION, [redacted] ADVISED ONE EXAMPLE OF WHAT APPEARS TO BE IMPROPRIETY, WAS [redacted] AT THE TIME THEY WERE AUDITING LINCOLN SAVINGS AND LOAN TESTIFIED BEFORE THE THREE MEMBER WASHINGTON, D.C. BANK BOARD AS MENTIONED ABOVE. AFTER THE BANK BOARD DECIDED TO SWITCH JURISDICTION TO WASHINGTON, D.C., [redacted] WENT TO WORK FOR AMERICAN CONTINENTAL

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CORPORATION AT A SALARY IN EXCESS OF $700,000 PER YEAR. THIS INDIVIDUAL WAS HIRED [redacted] FOR AMERICAN CONTINENTAL CORPORATION. IN ADDITION, [redacted] ALSO CONTACTED THE FAIR POLITICAL PRACTICES COMMISSION IN SACRAMENTO AND OBTAINED INFORMATION THAT KEATING AND HIS OFFICERS HAVE MADE SUBSTANTIAL CONTRIBUTIONS TO CALIFORNIA STATE LEGISLATORS. [redacted] ADVISED A PATTERN EXISTS WHEREBY KEATING WILL MAKE A CONTRIBUTION WHICH WILL THEN BE FOLLOWED BY CONTRIBUTIONS FROM HIS OFFICERS AND EMPLOYEES.

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ADMINISTRATIVE: AS THE BUREAU IS AWARE, IN GENERAL, THE PRESS THROUGHOUT THE COUNTRY, IS BEGINNING TO MAKE A MAJOR ISSUE OF THE SAVINGS AND LOAN CRISIS AND THEIR CONTRIBUTIONS AND LOBBYING OF VARIOUS U.S. CONGRESSMEN. AS AN EXAMPLE, THE HOUSE ETHICS COMMITTEE HAS BEGUN HEARINGS REGARDING THE ACTIVITIES OF SPEAKER OF THE HOUSE JIM WRIGHT. INCLUDED IN THOSE HEARINGS ARE ALLEGATIONS HE LOBBIED FOR AND RECEIVED LARGE SUMS OF MONEY FROM THE SAVINGS AND LOAN INDUSTRY. AS AN EXAMPLE, AS DOCUMENTED IN NEWS BRIEFINGS THE CONGRESS OF THE U.S., ACCORDING TO THE RECORDS OF THE FEDERAL ELECTION COMMISSION, RECEIVED IN EXCESS OF $883,000 FROM THREE POLITICAL ACTION COMMITTEES OF THE SAVINGS AND LOAN INDUSTRY IN 1987 AND 1988. IN ADDITION, EMPLOYEES AND FAMILY MEMBERS OF SAVINGS AND LOANS THROUGHOUT THE COUNTRY AND REAL ESTATE DEVELOPERS THROUGHOUT THE COUNTRY COLLECTIVELY GAVE IN EXCESS OF $930,000 TO VARIOUS TO FINANCIAL COMMITTEES RAISING

FUNDS FOR DEMOCRATIC CANDIDATES THROUGHOUT THE COUNTRY.

IN ADDITION, ACCORDING TO VARIOUS NEWS REPORTS, IT APPEARS MONEY CONTRIBUTED FROM THE SAVINGS AND LOAN INDUSTRY IN GENERAL TO THE CONGRESS OF THE UNITED STATES HAS A MAJOR INFLUENCE ON DECISIONS MADE BY THE CONGRESS AS THEY RELATE TO THE SAVINGS AND LOAN INDUSTRY. IT IS WELL KNOWN THE SAVINGS AND LOAN INDUSTRY IS IN A MAJOR CRISIS DUE TO THE FACT SO MANY THROUGHOUT THE COUNTRY, ESPECIALLY IN CALIFORNIA AND THE SOUTHWEST EITHER HAVE FAILED OR ARE IN THE PROCESS OF FAILING. THE CONGRESS OF THE UNITED STATES HAS NOT ACTED ON NEW LEGISLATION OR CORRECTING OLD LEGISLATION IN ATTEMPTS TO CORRECT THE SITUATION. IT IS TO THE BEST INTEREST TO THE OWNERS OF THE SAVINGS AND LOANS THAT THE LEGISLATION GOVERNING THOSE INSTITUTIONS REMAIN THE SAME, THUS NOT INCREASING IN REGULATORY ACTION. SINCE 1982 THE SAVINGS AND LOAN INDUSTRY HAS BASICALLY BEEN DEREGULATED. IN ADDITION, REGARDING THE SITUATION WITH LINCOLN SAVINGS AND LOAN AND AMERICAN CONTINENTAL CORPORATION, NEWS ARTICLES, SPECIFICALLY IN THE "ORANGE COUNTY REGISTER", DATED JANUARY 14, 1989, INDICATE THE OFFICERS OF THE SAN FRANCISCO OFFICE OF THE BANK BOARD WERE EXTREMELY UPSET AND STATED THE REMOVAL OF THE SAN FRANCISCO JURISDICTION WAS UNPRECEDENTED IN THE HISTORY OF THE BANK BOARD.

DUE TO THE ABOVE, AUSA [redacted] REQUESTS THE FBI TO CONDUCT A PRELIMINARY INQUIRY INTO POSSIBLE VIOLATIONS OF THE FEDERAL ELECTION LAWS AS IT RELATES TO MONEY RECEIVED BY THE

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ABOVE LEGISLATORS FROM AMERICAN CONTINENTAL CORPORATION AND LINCOLN SAVINGS AND LOAN. IF IN FACT, SCHEMES WERE DEVISED OR EMPLOYEES AND OFFICERS WERE DIRECTLY REIMBURSED BY THE SAVINGS AND LOAN, IT IS A VIOLATION OF THE FEDERAL ELECTION LAW.

BT

PX 194C-236
DTB:hs

The following investigation was conducted at Phoenix, Arizona, by Special Agent (SA) [redacted] b3

On March 2, 1989, SA [redacted] Santa Ana Resident Agency, advised that he was the case agent on a matter pertaining to [redacted] of LINCOLN SAVINGS. [redacted] stated his file number was 29A-16309 and he was in the process of obtaining Federal Grand Jury subpoenas for [redacted] believed once the documents were obtained and reviewed that additional subjects would be added to his case title, including CHARLES KEATING, [redacted] b6 b7C

As a side note, [redacted] stated that a political corruption spin-off case may be opened as a result of pressure put on by U. S. senators to the FHLB to rescind their plans to take over management of LINCOLN SAVINGS. When FHLB - San Francisco, refused to bend, the senators successfully got FHLB - Washington, DC, to override the San Francisco region and removed LINCOLN SAVINGS from their jurisdiction. A subsequent newspaper article reflected that AMERICAN CONTINENTAL (prior parent company of LINCOLN) had made substantial contributions to the re-election campaigns of two of the five senators that approached the FHLB. The senators receiving contributions were Senator ALLAN CRANSTON and DONALD RIEGLE - Michigan and Chairman on the Banking Subcommittee. The other senators that approached FHLB were DENNIS DECONCINI, JOHN McCAIN and JOHN GLENN. b6 b7C

SA [redacted] provided copies of newspaper articles pertaining to LINCOLN SAVINGS and the FHLB; and an article that addressed political contributions made by AMERICAN CONTINENTAL. b6 b7C

56D-181-2

SEARCHED ___ INDEXED ___
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APR 5 1989

FBI — PHOENIX

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(Indicate page, name of newspaper, city and state.)

PHOENIX GAZETTE

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(Mount Clipping in Space Below)

Lincoln S&L bidder alters proposal

By Leslie Irwin
The Phoenix Gazette

The latest bidder for American Continental Corp.'s savings and loan has dramatically altered the terms of a proposed sale, trying to make it more palatable to regulators.

The revised offer follows published reports that the government might seize Lincoln Savings and Loan Association and a subsequent outflow of at least $20 million in deposits.

John Rousselot, a former Republican congressman from California who heads the buyer group, said Tuesday that he met with five staff members of the Federal Home Loan Bank Board in Washington, D.C., to draft changes in his application to purchase the California-based thrift.

Rousselot

Meanwhile, the 61-year old Rousselot was appointed chairman and chief executive officer of Lincoln Savings Tuesday. He said that appointment also would facilitate the sale.

Rousselot replaced 33-year-old Ray Fidel, who resigned. American Continental officials declined to comment on reasons for the resignation.

Rousselot said he hopes regulators will make a decision this week on the revised offer.

"I think it's moving along as rapidly as possible," he said.

"We are working in great detail and are in touch with them (federal regulators) twice a day."

The changes represent concessions on the part of American Continental, which has been trying to sell the thrift for the past year.

Under the proposed changes outlined in a letter sent today from Rousselot to the three-member FHLBB:

■ American Continental would infuse $50 million into the thrift. It would no longer receive preferred stock for this contribution.

■ The buyer group would raise an additional $150 million in capital over the next three years.

■ American Continental would receive $200 million

See ■ Lincoln, F-5

56C-181-3

APR 21 1989

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FBI/DOJ

Lincoln

From F-1

worth of non-voting preferred stock in Lincoln, instead of the $288 million outlined in the original proposal. The preferred would pay dividends only if the thrift succeeds.

■ The buyer also would appoint only directors and officers approved by the Bank Board.

■ American Continental would buy back certain assets, including Lincoln's 20 percent interest in General Oriental Investments Ltd. and its majority state in the Phoenician Resort and the Crescent Hotel. Under the original deal, Lincoln would finance the buyback through a 10-year note, with annual interest payments deferred for two years.

The revised plan calls for all notes to be guaranteed by personal assets of American Continental chairman Charles H Keating Jr. and members of his family. No payments would be deferred, and American Continental would have three years to pay off the loan for the 20 percent interest in General Oriental.

■ Supervisory authority for Lincoln Savings would be transferred out of Washington and back to the 11th District in San Francisco.

The revised bid comes amid rumors that Lincoln must be sold or face regulatory seizure.

Rousselot cited those rumors as the reason for deposit outflows of at least $20 million.

Paula Bloch, financial representative for Lincoln Savings, said a story published by *The Orange County Register* on March 31 caused withdrawals for the first two days after it ran.

Bloch said the withdrawals have not been significant but have continued since the article was published.

"I don't know if I can exactly quote you a dollar figure, but it's not been something that has damaged beyond repair right now. I mean it's obviously a loss that we've suffered. But we do have the assets. It's not something that's damaged us as far as putting us below the net worth requirements at all."

Bloch emphasized that deposits are insured by the Federal Savings and Loan Insurance Corp. for up to $100,000 per account, and that Lincoln Savings more than meets minimum capital requirements.

But a former bidder for Lincoln Savings, Spencer Scott, has said a second of two lengthy examinations into the thrift by federal regulators stated that the thrift had overstated its net worth by $100 million and that it did not meet minimum capital requirements.

Documents filed at the Securities and Exchange Commission on the company's third-quarter financial results show that Lincoln Savings had regulatory capital of 4.65 percent. Federal regulators require S&L's to maintain a capital-to-assets ratio of 3 percent.

American Continental has not filed its fourth-quarter and year-end 1988 financial results.

An accountant for American Continental said the company planned to file fourth-quarter results Friday but did not know if that would happen.

Asked if American Continental and the Keatings were preparing to file corporate and personal bankruptcy should regulators reject the Rousselot offer, company spokesman Mark Connally said, "The company has not as of this time filed for protection."

Connally added that American Continental is encouraged that the sale would be approved.

"The company is actively pursuing the sale and still looking forward to a favorable approval by the bank board of the application," he said.

Fate of Phoenician hangs in balance

Company says luxury hotel unaffected

What will happen to the posh $300 million Phoenician Resort in light of American Continental Corp.'s bankruptcy filing?

That question arises amid the threat of a foreclosure on the property and the government seizure of the thrift that funded over half its construction costs.

Late Thursday, American Continental Corp. filed for court protection from creditors.

While the company has assured that the resort is not part of the Chapter 11 bankruptcy proceedings, the issue remains unclear to some closely involved with the property.

Gerald W. Murphy, president of McCarthy, general contractor on the resort construction, said he was puzzled by the absence of the Phoenician Resort in the bankruptcy filing while the Crescent Hotel Group was included.

"We don't really understand that," Murphy said.

The hotel group, he said, is believed to be the general partner in ownership of the Phoenician.

Muddying the waters further is an $18.4 million lien filed on the resort by McCarthy for its work on the Phoenician.

American Continental has filed a counterclaim, accusing the contractor of such things as shoddy workmanship, double billing and breach of contract.

Murphy said he is not sure how the bankruptcy filing will affect his company's efforts to recover the money it claims it is still owed.

In a separate court action designed to help isolate the money Murphy says he is owed, McCarthy on Thursday won a temporary restraining order freezing money in an escrow account held by Manufacturers Hanover Trust Co. of New York City.

Maricopa County Superior Court Judge Cecil Patterson will hold hearings Tuesday and Wednesday on McCarthy's application for a permanent restraining order.

See ■ Resort, D-3

(Mount Clipping in Space Below)

(Indicate page, name of newspaper, city and state.)

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FBI — PHOENIX

■ Resort

Patterson granted the order orally on Thursday and will consider signing a written version of the order today, according to documents provided by McCarthy's lawyers at O'Connor Cavanagh.

The order prevents the Phoenix Resort Corp. and Crescent Hotel Group Inc. from taking any money or controlling the principal amount in the account.

"Our lawyers were telling them we wanted the fund tied up because we were concerned about the solvency of the whole operation — including Lincoln," Murphy said.

Topping off the confusion is the possibility that federal and state regulators will take over the troubled California thrift, which is the main subsidiary of American Continental.

Total construction cost on the resort was $152.8 million.

McCarthy's complaint names Phoenix Resort Corp. and Crescent Hotel Group as defendants.

As of March 1, the hotel's owners claim Phoenix Resort had paid McCarthy $133.9 million, of which $2.9 million is being retained in an escrow account.

Washington-based thrift analyst Bert Ely predicted the Phoenician will be sold at a severely marked down price.

"I have a feeling the Phoenician will ultimately sell for a lot less than the money that's been invested in it. I mean, that's been the suggestion right from the beginning, that the thing was a white elephant."

One analyst has estimated the Phoenician will lose $18 million to $30 million in its first year.

But Jeff Johnson, marketing director for the Phoenician, insists the hotel is making money.

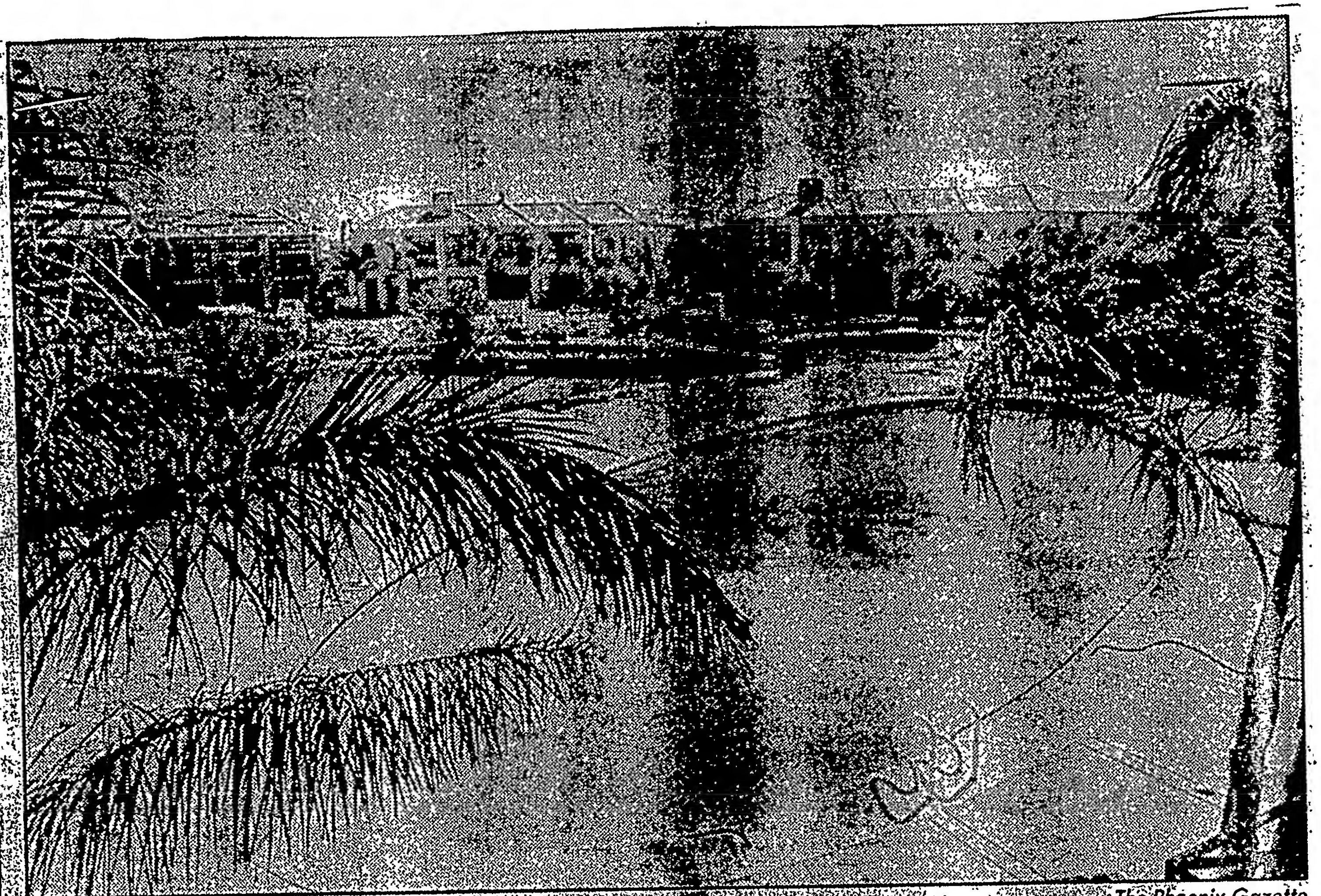
Since the hotel opened, its average occupancy rate has been 80 percent, Johnson said.

The average individual room rate has been $250, with an average rate of $190 for group travel, he said.

Johnson said rates will drop to $90 and $75 during the summer.

The resort, which opened Oct. 1, employs more than 1,000 people.

—Leslie Irwin



The Phoenix Gazette

The Phoenician Resort at 6900 E. Camelback Road opened Oct. 1. Majority ownership is held by Lincoln Savings and Loan, the main subsidiary of American Continental Corp.

FD-350 (Rev. 5-8-81)

(Indicate page, name of newspaper, city and state.)

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Keating fends off creditors

By Russ Hemphill
The Phoenix Gazette

Like a lot of what Charles Keating does, Thursday's bankruptcy filing was Big.

Twelve companies, $3.85 billion in assets and $2.97 billion in liabilities.

"No question it's the largest bankruptcy case filed in the state of Arizona," bankruptcy clerk Kevin O'Brien said.

The filing is so big that four — and perhaps six — of the entities eclipsed the previous high-water mark of about $300 million in assets of a company filing for Chapter 11 in Arizona.

The filing also is in the top 10 of the largest companies to file for Chapter 11 nationally, ranking behind only Texaco, Baldwin-United Corp., Penn Central Corp., LTV Corp., Public Service Co. of New Hampshire and perhaps Eastern Airlines.

Keating, like officers at Texaco and other huge companies, sought the protection of bankruptcy court to fend off creditors while he tries to reorganize under the direction of a judge.

Unlike Chapter 7, which calls for the liquidation of a company to pay its creditors, Chapter 11 is intended to ultimately let a company exit bankruptcy court and resume its normal business operations.

The bare-bone filings, which reveal little more than total assets and lists of creditors, apparently were ready to be filed as early as April 8.

An April 8 date is scratched out on all the court filings and replaced with Thursday's date.

Details of the financial health of the companies will be divulged in future court documents as Keating tries to win approval of a plan of reorganization.

Some details may come out at a first meeting of creditors where company officials can be grilled by an estimated 25,000 people and companies owed money by the companies.

In the court documents, American Continental Corp. claimed assets of $454,712,642 and liabilities of

See ■ Creditors, D-6

56C-181-5

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APR 21 1989

Creditors

$358,887,870.

That company has 21,900 unsecured creditors holding debt securities for $283,275,332.

As late as Jan. 30, American Continental was offering subordinated debentures paying interest rates of 12.5 percent. Investors could buy in for just $1,000.

The 11 subsidiaries filing for bankruptcy include Amcor Funding Corp., with assets of $935.6 million and debts of $820.8 million. Amcor controls the Phoenician Funding Corp., Continental Fidelity Life Insurance Co., American Founders Life Insurance Co. and Amcor Insurance Group.

Other subsidiaries filing for bankruptcy are: SSFLC, which controls the Phoenix investment firm of Young, Smith & Peacock Inc.; Phoenician Financial Corp.; Phoenician Commercial Properties Inc.; Provident Mortgage Corp.; Amcor Investments Corp., which controls the Estrella development in Goodyear; Crescent Lending Corp.; Linfin Corp.; Castle Meadows Inc.; the Crescent Hotel Group; and Cresfin Corp.

The filing does not include The Phoenician Resort or the Crescent Hotel, which together employ more than 1,000 people.

The 11 subsidiaries comprise all but one of the first tier of companies directly under Lincoln Savings and Loan.

The 12th, Insurance West Inc., did not file for bankruptcy.

About 125 employees at American Continental's headquarters on East Camelback Road were told of the bankruptcy filing Thursday evening by president Judy Wischer. Some were told that they would have jobs for up to 90 days.

The company issued only a brief statement of explanation and said additional details would come at a press conference Monday morning.

But it is clear that chairman Charles H Keating Jr. blames his company's troubles on his long struggle with federal regulators of the savings and loan industry.

He contends that their failure to approve a sale of the thrift has forced him into insolvency.

In Thursday's statement, Keating said he could not comply with a demand from the bank board to execute a consent agreement that would allow a takeover of the thrift at any time.

"With this demand before us, and having received confirmation of the Bank Board's unwillingness to respond positively to the application for sale, we believe that we have taken the only course of action that will maximize the value of American Continental for the benefit of our bondholders and shareholders," the statement said.

Economic impact

The collapse of American Continental Corp. could be the knockout punch to Maricopa County's reeling economy.

Keating's bankruptcy filing threatens to plunge into disarray the development and financial industries of the Southwest.

At the end of 1987, American Continental's Lincoln thrift owned $827 million in real estate, including $487 million in Arizona, more than $100 million each in Colorado and Texas and $63 million in Georgia.

R.L. Brown, a Valley housing analyst, said the bankruptcy filing has "an incredible disintegrating effect on the real estate market. It has the kind of repercussions that will be felt until the whole economy mends."

He pinpointed three areas where American Continental's demise would hurt the Valley's real estate market: lenders already suffering from losses in their land portfolios, psychological damage to the real estate market in general, and further reductions in the price of land.

From D-

Subsidiary filings

	Assets*	Liabilities*
Phoenician Commercial	$283.6	$278.5
SSFLC	24.8	27.4
Castle Meadows Inc.	136.1	10.0
Provident Mortgage Corp.	36.2	32.6
AMCOR Investments	626.6	532.1
Cresfin Corp.	63.2	1.5
Linfin Corp.	724.4	605.1
Phoenician Financial	287.1	219.4
AMCOR Funding Corp.	935.6	820.8
Crescent Lending Corp.	155.2	78.1
Crescent Hotel Group	120.6	3.8
American Continental	454.7	358.9

*in millions

Robert Kammrath, a leading real estate analyst, said the atmosphere within the lending community is "the worst I've ever seen."

Lincoln Savings was among the most "winging-it lenders" for developers, "helping speculative real estate, which in turn has caused the economic booms around here," Kammrath said.

While the Arizona Banking Department does not regulate American Continental or Lincoln Savings (it is in California's jurisdiction), the bankruptcy filing could dramatically affect the financial industry.

"Everyone has been concerned that there may come a day when a large landholder will be forced into bankruptcy and, as a consequence, may attempt to hold a fire sale of assets," said Hank Rivoir, superintendent of the state agency that regulates banks and thrifts.

He said regulators who have seized control of three state-chartered savings and loans have not dumped real estate on the market.

"The bankruptcy of an important player like American Continental is of great concern to everyone who is watching real estate values," Rivoir said, adding that he was worried about the psychological reaction the Chapter 11 filing would have on real estate values.

Estrella future clouded

The latest project of American Continental, which is known as the creator of master-planned communities, is Estrella in Goodyear. Many analysts view the development as too distant to be profitable and doubt whether in today's market the 21,000-acre project can be sold.

Keating is credited with buying the property in the far West Valley at a good price, but he was criticized for spending three times the cost of the land to build roads within the community.

By November, the company had built and landscaped more than 10 miles of arterial roads with water and sewer improvements, created two lakes totaling 72 acres and planted 10,000 trees.

Goodyear Mayor Carl Gow said he couldn't determine what effect the reorganization petition would have on Estrella or Goodyear, which at the developer's urging incorporated what is one of the largest land developments in the United States.

"It's not going to throw the city into a financial bind," he said. "The worst thing may be that we're stuck with a big place out there, but we aren't going to be obligated."

The Estrella project was expected to bring more than 70,000 residential units, high-rise office buildings, extensive industrial sites, research and development parks, a destination resort hotel, a shopping center, a 99-acre hospital complex, schools and community facilities to the West Valley in 20 years.

Additional information by reporters Jodie Snyder, Dawn Willett and Leslie Irwin.

American Continental's projects

Retail shopping centers:

1. Union Square - 43rd Ave. and Union Hills, Phoenix
2. Continental Plaza - Southern Ave. and Longmore Road, Mesa
3. McClintock Fountains - Northeast corner of Warner and McClintock, Tempe
4. Fountain Square - 7th St. and Bell Road, Phoenix

Mixed use:

5 The Crossings - 1,023 acres south of the Superstition Freeway near Ellsworth

6 Estrella - 20,000 acre master-plan community

7 Dobson and 8 Bellair - planned communities built in the 1970s

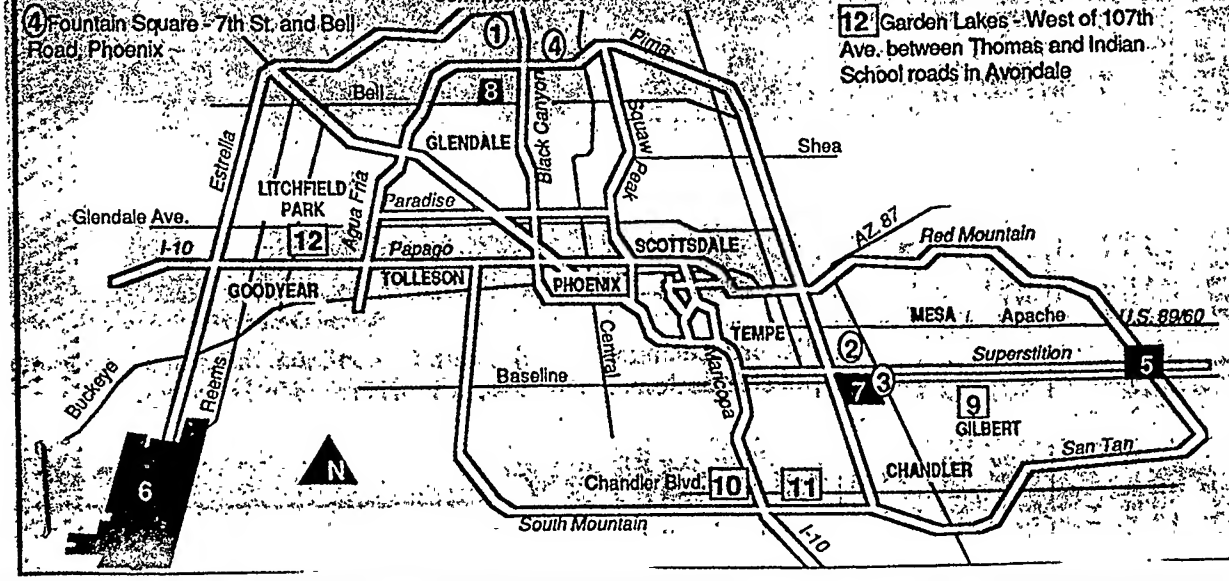
Residential:

9 Islands - near Warner and Cooper roads in Gilbert

10 Lakewood - South of Chandler Blvd. and west of I-10 in Phoenix

11 Anderson Springs - Ironwood Drive and Dobson Road in Chandler

12 Garden Lakes - West of 107th Ave. between Thomas and Indian School roads in Avondale



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Home builder not affected by Chapter 11

By Jodie Snyder
The Phoenix Gazette

"There is no relationship between Continental Homes and American Continental," Tom Hickcox, director of sales and marketing for the home building company, said.

Reacting to the bankruptcy filing of American Continental Corp. late Thursday, Hickcox said it would have no direct impact on Continental Homes or its home buyers.

Hickcox said several people called Continental Homes to see if their home purchases would be affected when they heard that American Continental and 11 of its subsidiaries have sought protection from creditors in federal bankruptcy court.

"We used to be part of Continental. We went out on our own three years ago. We became a publicly traded over-the-counter company two years ago," he said.

But the shadow of financial giant Charles H. Keating Jr. falls long across the name and reputation of Continental Homes.

Keating took over the struggling home building company when it was spun off from Cincinnati-based American Financial Corp. in 1976, parlaying it into the most prolific home builder in the state.

By 1985, Continental Homes was destined for another spin-off. In June of that year, Keating decided to move out of the home building business.

In a leveraged buyout, three longtime managers of American Continental acquired nearly all the assets of the home building division's Phoenix operations for $55 million.

Today, Continental Homes Inc. is held by Continental Homes Holding Corp., a public company. Many assume it still is owned by or somehow tied to Keating and American Continental. Stock trading today was unchanged from Thursday.

The "new" Continental Homes has yet to establish its own identity. For example, the company retains the "Welcome Home" slogan, hires former American Continental employees and leases space in a Scottsdale office plaza formerly owned by American Continental and named after the company.

Hickcox said the home builder has bought property from American Continental and does have loans from Lincoln Savings and Loan.

Continental Homes will continue its operations in American Continental's Estrella development in Goodyear. The company started building there a month ago and has three models open but no sales.

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APR 21 1989

FBI — PHOENIX

FD-350 (Rev. 5-8-81)

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Lincoln S&L seized by federal regulators

By Leslie Irwin and Marian Lucas
The Phoenix Gazette

American Continental Corp.'s largest subsidiary, the ailing Lincoln Savings and Loan Association of Irvine, Calif., was seized today by regulators from the Federal Deposit Insurance Corp.

Danny Wall, chairman of the Bank Board, said regulators moved in before Lincoln became insolvent and that branches of the thrift will remain open.

The action follows Thursday's bankruptcy filing by Phoenix-based American Continental and 11 of its subsidiaries. The companies sought protection from creditors under Chapter 11 of the U.S. Bankruptcy Code.

By taking control, regulators ended their bitter, two-year struggle with American Continental chairman Charles H Keating Jr.

"I would say the filing of bankruptcy yesterday played a major part in the Federal Home Loan Bank Board making that decision," Shirley Thayer, senior counsel for the California Department of Savings and Loan, said.

In the past few weeks, customers had withdrawn at least $20 million on rumors that the thrift would be seized. More withdrawals were anticipated, although deposits are insured by the Federal Savings and Loan Insurance Corp. for up to $100,000 per account.

Federal and state S&L examiners

See Lincoln, A-4

Lincoln

remained at the S&L today to inventory assets and determine the value of the thrift.

Regulators say Lincoln has regulatory capital of $20 million on total assets of $5.4 billion.

The thrift was placed into conservatorship because Lincoln's assets had been substantially dissipated and was being operated in an unsafe and unsound condition, according to the Federal Home Loan Bank Board.

Wall said regulators had considered four purchase deals presented by Lincoln's parent company. "There has not been the indication of any real capital or money being proposed to be interjected" into the thrift, he said.

He said American Continental filed for bankruptcy protection with the knowledge that regulatory action was forthcoming.

The Chapter 11 proceedings complicate the matter, Wall said, since "it is not clear whether the Bankruptcy Court or whether our authority prevails."

Bill Fulwider, a spokesman for the Bank Board in Washington, D.C., said Lincoln management repeatedly has violated regulations relating to transactions with affiliates, used poor underwriting and has refused to follow supervisory directives.

As managing agent for the Bank Board, the FDIC installed a management team. R. Roger Clark was appointed chief executive officer of Lincoln. He recently was CEO of [illegible] Savings in Dallas when it was under the Bank Board's management consignment program.

John Rousselot, who had been named Lincoln's chairman and chief executive officer Tuesday, resigned those positions today. He had led a group that was trying to buy the thrift. That proposal was turned down by regulators because it did not include enough cash, according to the Bank Board.

California regulators viewed the action as necessary and long overdue, Thayer said.

"It was very necessary," Thayer said.

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"This department concurred with the San Francisco Federal Home Loan Bank Board as long as eight months ago."

The delay will end up costing the FSLIC and ultimately the taxpayer more money to get the thrift back on its feet, she said.

In addition, prompt, decisive regulatory action concerning Lincoln is especially critical since the thrift is such a large institution, she said. Lincoln Savings has $5.4 billion in deposits.

Separate from its regulatory dilemma, Lincoln thrift is under investigation by the U.S. Attorney's Office in Los Angeles for criminal fraud.

The Securities and Exchange Commission also has multiple investigations into American Continental, with the oldest probe digging into the accuracy of its financial statements.

Lincoln Savings, which wasn't part of the bankruptcy filings, represents about 93 percent of American Continental's approximately $7 billion in assets.

The story of American Continental and its chairman goes back 18 year to when Keating moved to Phoenix to take over a troubled home-building company owned by corporate raider Carl Lindner, head of American Financial Corp. of Cincinnati. Keating had been a vice president of American Financial.

He later bought the home-building company — Continental Homes — and took it public in 1978 as American Continental Corp.

After years of success at selling the most homes of any builder in the state, Keating became attracted to the idea of owning an S&L. In February 1984, he purchased Lincoln S&L for $51 million. The next year, he sold Continental Homes to a group of insiders for $55 million and became heavily involved in real estate development, bringing cash into Arizona from his California S&L.

After acquiring the thrift, Keating used liberal California banking laws to engage the S&L in a variety of non-traditional business activities: real estate development, speculation in junk bonds, stocks and leveraged buyout financing and the construction of the Phoenician and Crescent hotels.

When Keating bought Lincoln Savings, the thrift industry recently had been deregulated. The government allowed S&Ls to move away from traditional home mortgage loans into riskier but potentially more profitable investments with federally insured deposits.

But by 1985, federal regulators became alarmed at what thrifts were doing with their new-found freedoms. The government tightened restrictions, allowing only 10 percent of an S&L's assets to be placed in direct investments in real estate projects and stocks.

In a rare meeting with reporters Feb. 2, Keating admitted he probably wasn't cut out to operate in a regulated environment.

The relationship between Keating and regulators has been marked by a series of unusual events.

For example, San Francisco regulators conducted the longest examination into Lincoln in the history of the thrift industry.

Keating fought back savagely. He rounded up five senators to meet with bank board officials on April 9, 1987.

The group met in the office of Sen. Dennis DeConcini, D-Ariz., and included Senators John McCain, R-Ariz., John Glenn, D-Ohio, Don Riegle, D-Mich., head of the Senate Banking Committee, and Alan Cranston, D-Calif.

The handful of politicians had received about $300,000 in campaign contributions from Keating and his affiliates.

The senators told regulators to either charge Lincoln with something or get off its back.

At this meeting, regulators warned that they intended to make a criminal referral to the Justice Department on Lincoln's behavior. The U.S. Attorney's Office in San Francisco confirmed last month that an investigation was under way.

At a congressional hearing in California Jan. 12, San Francisco bank examiners said they found ~~"serious~~ deficiencies" at Lincoln during a 1986 exam, including appraisals that substantially understated losses.

By May 1987, the San Francisco regulators recommended that the government take over the operation of Lincoln because the S&L represented a "serious risk to the FSLIC."

Lincoln disputed the findings in the examination and questioned motives and qualifications of those making the appraisals.

Despite San Francisco regulators' findings, the Bank Board signed an agreement not to begin enforcement actions against Lincoln concerning issues that came up during the examination.

In an unprecedented move, the Bank Board, under chairman Wall, transferred supervision and examination authority for Lincoln from San Francisco to the Federal Home Loan Bank of Washington.

Back in Phoenix, Keating and his employees celebrated that day by throwing a computer out of a second-story window and cracking open bottles of champagne.

And then the tables started to turn.

Rumors began circulating that the second examination undertaken in Washington also was negative and vindicated San Francisco regulators' tough stance on the thrift.

The bankruptcy situation should embarrass the bank board and the five senators who used their influence on Keating's behalf, said Bert Ely, a financial institution consultant based in Virginia who is frequently quoted in *The Wall Street Journal*, *American Banker* and the *Los Angeles Times*.

"What's interesting about the Lincoln situation is ... (that) it's going to be a very serious political embarrassment inside the Washington beltway — for those senators who went to bat for Lincoln and very much of an embarrassment for Danny Wall," Ely said.

He added, "I'm sure there also will be a lot of quiet glee at the San Francisco bank about this, and in Washington also."

Questions and answers

What is Chapter 11? Chapter 11 provides shelter from creditors while a business reorganizes. Unless the bankruptcy court rules otherwise, the debtor remains in possession of the business and in control of its operation. Debtor and creditors are allowed considerable flexibility in working together.

Who filed? American Continental Corp. of Phoenix and 11 of its subsidiaries.

What are its total assets? $3.9 billion

What are its debts? $2.8 billion

Who is the judge? It was assigned to Sarah Sharer Curley, newest of three Phoenix bankruptcy judges.

How many creditors? About 25,000.

What happens to The Phoenician Resort and the Crescent Hotel? American Continental said the hotels would not be affected by the bankruptcy filing.

What about Continental Homes? It no longer is owned by American Continental. It became a separate company in 1985, when company insiders took it over in a leveraged buyout.

What's next? Regulators took control of American Continental's main subsidiary, Lincoln Savings and Loan Association of Irvine, Calif., today and will name new management.

Nancy Engebretson, *The Phoenix Gazette*

An American Continental Corp. employee helps remove boxes of items from the corporate headquarters at 2735 E. Camelback Road early Thursday evening after the bankruptcy was announced.

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(Indicate page, name of newspaper, city and state.)

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Developer known for his generosity

By Laura McBride
The Phoenix Gazette

Who is Charles H Keating Jr.?

Developer? Banker? Political contributor? Philanthropist? Father? Devout Catholic?

Keating, chairman of American Continental Corp., is one of the most influential men in Arizona and all of the above.

Born in Cincinnati in 1923, Keating was educated at private schools and attended the University of Cincinnati, where he flunked out.

He did a stint in the Navy, flying Hellcat fighter planes. He then went to Ohio State University on an athletic scholarship but quit and made an agreement with the University of Cincinnati to complete his degree and enter law school.

Keating became a lawyer and by the late 1950s headed his own firm.

While in practice, he met Carl Lindner, head of American Financial Corp. Eventually, home builder Continental Homes in Phoenix became one of the company's holdings, and Keating became the company's vice president.

The Keating family — his wife, Mary Elaine, and their six children — moved to the Valley in the mid-70s as the home-building industry and Continental were struggling.

The company was spun off the American Financial books, and in 1978 Keating took it public as a separate company, American Continental Corp.

See ■ Keating, A-7

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Keating

From A-1

In 1979, Keating had a brush with the Securities and Exchange Commission, which charged him and Lindner with fraud in connection with $14 million in questionable bank loans.

Keating signed an SEC consent decree, agreeing not to violate federal fraud statutes, while not admitting or denying any wrongdoing.

His key business move was the acquisition of Lincoln Savings and Loan in 1984. The focus of American Continental quickly changed to land development and financial services. In 1985, the housing division was sold off.

With a steady flow of cash from Lincoln, American Continental has been able to amass real estate and other ventures throughout the country.

In addition to his business profile, Keating also is known in the Valley for his generousity to political and charitable causes.

Keating, a devout Catholic, in 1983 pledged that American Continental would contribute $25,000 quarterly to the St. Vincent de Paul Society for 10 years.

The company also donated $500,000 to Mother Teresa, the Roman Catholic nun who won the Nobel Peace Prize for her work among the poor in Calcutta, India.

Keating also has been unparalleled in his generosity to city, state and national political candidates, including former County Attorney Tom Collins, U.S. Sen. John McCain and mayoral candidate Pete Dunn. His generosity has been cited as the impetus for a 1986 municipal law restricting individual donations.

Keating also has become widely known in the Valley for his strong stand against pornography. While in Ohio, Keating founded Citizens for Decent Literature. He brought the organization, which became Citizens for Decency Through Law, to Phoenix in 1981, where he continues to pour his time and money into the cause.

The generosity continues in the day-to-day management of American Continental. The staff is a group of clean-cut, mostly young people who work long hours in exchange for large paychecks.

In fact, Keating's only son, Charles H. Keating III, is an executive vice president who earned $863,494 in 1987, a year in which his father earned a base salary of $1.9 million.

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News disappoints state's senators

By The Phoenix Gazette

Arizona's two senators, who both went to bat for Charles H. Keating Jr. during his nearly two-year struggle with thrift regulators, predicted the seizure of Lincoln Savings and Loan will deeply hurt Phoenix's economy.

Sen. Dennis DeConcini, a Democrat, said American Continental "is a big, important company that hires more than 1,000 people and has a payroll of over $250 million and has several billion in loans in Arizona. That's unfortunate for us."

Lincoln is the main subsidiary of American Continental.

Republican John McCain also expressed concerned about the thrift seizure's negative effect on the economy. "I'm no expert, but I don't think it can be any good for the economy," he said.

On a personal level, the senator said he feels sorry for the Keatings, as they are friends of his family. He added, though, "You can't question the judgment of the Federal Home Loan Bank Board."

Both Arizona senators were known benefactors of generous campaign contributions from Keating and his associates.

When officials with the San Francisco region of the Federal Home Loan Bank Board probed Lincoln in 1987 for risky ventures into real estate, McCain, DeConcini and three other senators met with

See ■ React, A-4

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React

From A-1

regulators and asked for an end to the examination.

McCain said today that he has always been concerned about the appearance of the meeting. "When you have a group of senators meeting with regulators, it has the potential of creating a bad impression," he said. "I still remain concerned."

The senator added that regulators assured him on two accounts that the meeting was not improper.

But what resulted was unprecedented in the industry. In May 1988, the regulation of Lincoln was shifted to Washington, D.C. Officials in the capitol offices conducted their own examination and last fall found problems similar to those cited by the San Francisco regulators.

By the end of 1988, Keating was seeking a buyer for his thrift, saying that he was fed up with unfair treatment from regulators and that if he did not get rid of the S&L, his company could not survive.

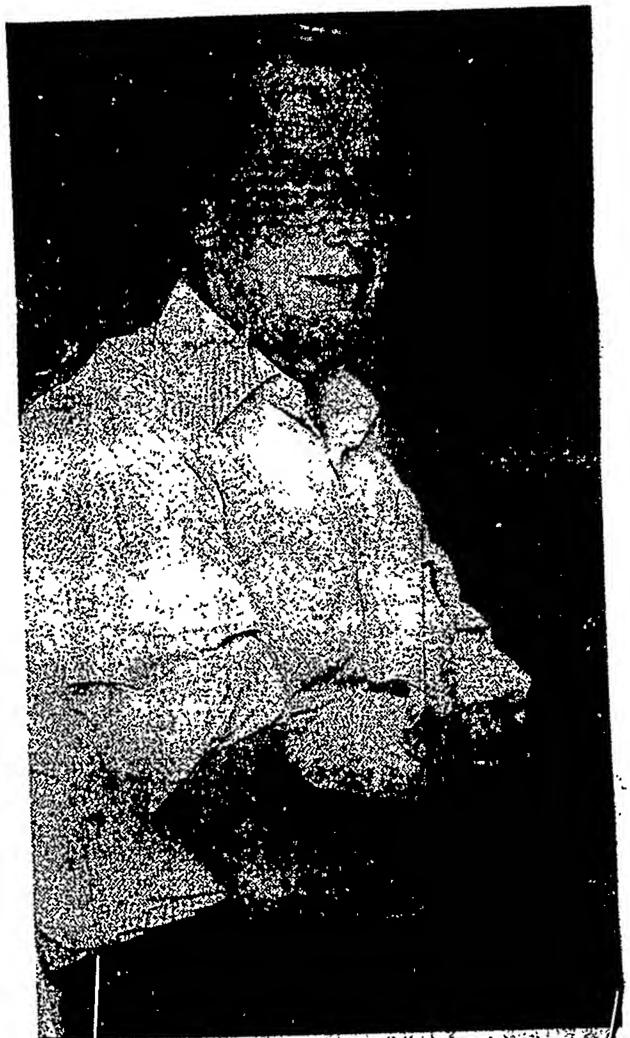
> "This is a tragedy that didn't have to happen."
> — Edwin Gray [illegible] banking official

Edwin Gray, former chairman of the FHLBB, who took a strong stand against liberalizing thrift regulations, said late Thursday:

"This (bankruptcy) is a tragedy that didn't have to happen. In retrospect, thrift regulators in San Francisco were aware of the prospects for the tragedy and sought to take action to prevent it long ago, but were unfortunately overruled. The fallout for the thrift system and its future goes far beyond the immediate case at hand."

He said when San Francisco was overruled by Washington, "seeds were planted which have now sprung up, placing the future of the thrift regulatory system in the kind of jeopardy which otherwise would not have occurred."

Written by reporters Dawn Willett, Marian Lucas and Leslie Irwin.



Charles H Keating Jr.

Keating lists contributions to state economy

On Jan. 3, American Continental Corp. chairman Charles H. Keating Jr. outlined the following contributions that he says his company has made to the Arizona economy since 1985:

■ Met Arizona's most pressing need for capital by importing approximately $3.5 billion from sources outside Arizona directly into the Arizona economy. "If you multiply the effect of that much money by the additional indirect funding it stimulates, the gross dollars are truly a phenomenal contribution," Keating said.

■ Paid or caused to be paid $100 million or more in various taxes to Arizona.

■ Paid more than $250 million in wages to Arizonans. "Actually, our contributions to wages if you consider direct and indirect (e.g., subcontractors, suppliers, etc.) are substantially more significant," he said.

■ Paid the state of Arizona more than $18 million in property taxes alone.

■ Never sought nor received a "favor" in business from any politician or political body. "Nor have we broken any laws."

■ Quality projects of significant magnitude and duration to benefit Arizona for many years, in some cases for decades. "We have made loans to citizens and businesses in Arizona of approximately $1.5 billion, while ourselves investing $1 billion in Arizona real estate. We brought many businesses from out of state into our Arizona projects," Keating said. For example, Rubbermaid, Taiyo, McKesson Robbins, Miller's Outpost, SupeRx, Bruno Magli and American Founders Life Insurance Co.

■ Brought foreign capital in huge amounts to Arizona.

■ Built and operates two hotels — the Crescent and the Phoenician — which cost more than $300 million, employ 2,000 people, and in 1989 will pay approximately $6 million in hotel taxes alone. Additionally, the payroll, the support of contractors and suppliers and the influx of hotel guests from all over the world are enormously beneficial economic events.

In connection with the hotels or other projects, "we have neither asked for nor received any grants, abatements or other aids," Keating said.

■ Put together an extraordinarily talented group of 3,500 people at American Continental Corp. who live and work in Arizona.

■ Contributed many millions of dollars to a wide variety of charities.

Since the corporation arrived in Arizona in 1978, Keating said it has brought or created the following businesses in the state:

■ A $1 billion land development company: AMCOR.

■ One of the top 10 home builders in the United States: American Continental Homes, which produced about 40,000 quality homes for Arizona families.

■ One of the largest mortgage companies in the United States: American Continental Mortgage Co.

■ American Founders Life Insurance from Texas, with insurance in force of about $3 billion and more than $300 million in assets, a significant portion of the assets invested in Arizona.

■ Insurance West, a large casualty insurance company, and Continental Fidelity Life Insurance Co.

■ Lincoln Savings and Loan Association from California, a $6 billion financial institution.

■ A major trading operation, which trades around the world about $10 billion annually.

■ A $1 billion corporate bond operation.

■ Major data processing operations.

■ Shopping centers, industrial buildings, offices and mixed-use development.

■ An unparalleled Olympic training center for swimming. It will be the best of its kind in the world, giving great sports and educational opportunities to thousands of youngsters, according to Keating.

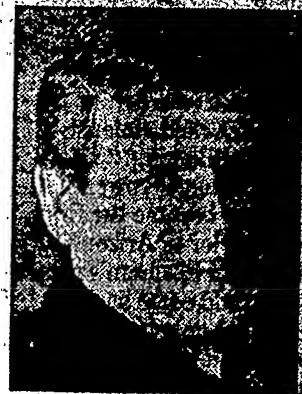
Key players at American Continental Corp.

According to company records and public filings, Charles H. Keating Jr. and his top 11 executives owned 49 percent of the common stock in American Continental Corp. as of Dec. 1, 1988. At year-end 1987, insiders controlled 74 percent and an employee stock ownership plan and trust owned another 24 percent.

The following data represents the titles and most recently available stock holdings and salaries of Keating's executive staff.

Charles H Keating Jr., 65
chairman of the board
2,644,105 common shares
Cash salary: $1,954,914

Judy Wischer, 40
president, CEO
732,802 common shares
Salary: $839,693



Charles H. Keating III, 33
son of Charles Keating Jr.
executive vice president
1,326,444 common shares
Salary: $863,494

Robert Kielty, 43
senior vice president,
secretary, general counsel
405,874 common shares
Salary: $873,952

Robert Wurzelbacher, 34
son-in-law
senior vice president
708,458 common shares
Salary: $647,129

Robert Hubbard Jr., 38
son-in-law
vice president
768,255 common shares
Salary unavailable

Sheldon Weiner, 35
senior vice president
47,938 common shares
Salary unavailable

Bruce Dickson, 35
vice president in charge
of lending, corporate debt
14,866 common shares
Salary unavailable

Mark Voigt, 37
president of AMCOR
15,701 common shares
Salary unavailable

[illegible] Hall, 37
[illegible]-law
[illegible]ctor
[illegible]2,141 common shares
Salary unavailable

Andrew Liggett, 31
chief financial officer
100 common shares
Salary unavailable

George [illegible]
heads Insurance West
702,795 common shares
Salary unavailable

Compiled by Dennis Wagner, *The Phoenix Gazette*

Insiders selling off some interest in company, report shows

An April 1988 financial report includes salaries for "the five most highly compensated executive officers" of American Continental.

Those figures do not include $539,459 in personal benefits from the use of company aircraft, facilities and perks. Nor do the salaries include income from stock options they exercised.

The common-share totals for these executives do not include thousands of shares held by other members of their families.

A financial filing on Nov. 9, 1988, listed 15.9 million shares outstanding; the most recent proxy showed that 13.9 million common shares were held by American Continental's top 15 executives. Since the last half of 1988, however, insiders have been selling off some of their interest in the company. Between year-end 1987 and December 1988, principals sold 20 percent of the corporation's common stock.

According to insider trading reports, Charles H. Keating Jr. reduced his holdings to 16.6 percent by the end of last year's third quarter from 22.2 percent at the end of 1987.

His son's share dropped to 8.3 percent from 13.1 percent.

Senior vice president Robert Wurzelbacher sold 1 million shares to bring his common stock holdings to 4.4 percent from 9.5 percent of the total common shares.

President Judy Wischer, who had percent of the shares in April 1988, reduc her holdings to 4.6 percent by Novemb 1988.

The average age of American Continc tal's top 10 executives, excluding Keating, 36. The oldest, Kielty, is 43. Three of the t 10 are Keating sons-in-law. A fourth Keating's son.

The company's annual report listed ,2 shareholders and 1,790 employees.

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American Continental chronology

Here's a look at the history of American Continental Corp. since its founding.

1976 — American Financial Corp. of Cincinnati sells its Continental Homes division to Charles H Keating Jr.

1978 — Keating moves to Phoenix and takes American Continental public.

1984 — American Continental acquires Lincoln Savings and Loan, a California thrift, for $51 million. Keating moves Lincoln into high-risk investments in junk bonds, real estate and low-grade securities.

1985 — Continental Homes is sold. Keating gives up home building because it involves "too much risk for too few dollars." American Continental investments include $369 million in low-grade securities.

1986 — Examiners for the Federal Home Loan Bank Board in San Francisco investigate Lincoln Savings and find "serious deficiencies," including false profits and an understatement of losses by $135 million. American Continental reports more than $700 million in speculative properties and $370 million in junk bonds. Keating earns $2.1 million to become the highest-paid officer of a Valley-based company.

January 1987 — *Forbes* magazine ranks American Continental Corp. among the best in the nation for growth and value, showing a 900 percent increase in stock value. During the same week, Moody's downgrades American Continental's debt rating because of high-risk investments. The Crescent Hotel celebrates its grand opening.

March 1987 — American Continental extends a $30 million line of credit to Gerald Wolken to enable him to buy 48 stores from Kroger Co. to form SupeRx of Arizona. As part of the deal, the company also acquires a 20 percent interest in SupeRx.

April 1987 — Officials from the Federal Home Loan Bank Board meet with five U.S. senators — including John McCain and Dennis DeConcini of Arizona — at Keating's request. The lawmakers — who received an estimated $150,000 in campaign contributions from Keating — allegedly lobby on behalf of Lincoln Savings.

May 1987 — San Francisco regulators recommend that the government take over Lincoln.

July 1987 — Keating says the purchase of Lincoln was "the dumbest move" ever by American Continental. He blames bank examiners for his troubles, declaring, "There's no regulator alive who knows what he's doing."

October 1987 — American Continental touts the 20,000-acre Estrella development 25 miles southwest of Phoenix, predicting that it eventually will be the home for 78,500 people.

December 1987 — Lincoln announces a restructuring to conform with traditional thrift investment plans.

May 1988 — Regulation of Lincoln Savings is transferred from the San Francisco office of the Federal Home Loan Bank to the Washington, D.C., office. Lincoln is ordered to add $10 million in capital through a stock sale and to release more than $50 million in debt.

July 1988 — American Continental purchases all the stock of the Phoenix-based brokerage firm of Young, Smith and Peacock from Ernest C. Garcia II.

September 1988 — American Continental reports losses of $36 million during the first nine months.

Oct. 1, 1988 — The $300 million Phoenician Resort opens.

November 1988 — Construction is completed at the Phoenician Resort. McCarthy Western Constructors Inc., the general contractor, files a lien because of unpaid bills.

December 1988 — Lincoln is under investigation by the state Banking Department in Arizona for alleged illegal deposit activity. Contractors who worked on the Phoenician Resort complain that payments are months overdue. Keating agrees to sell Lincoln S&L to a California investment group headed by Spencer Scott. A Federal Home Loan Bank Board examination finds that Lincoln overstated its worth by $100 million and failed to meet minimum capital requirements.

March 1989 — The sale of Lincoln to Scott falls through. Federal prosecutors disclose that Lincoln is under investigation for fraud. Judy Wischer, president of American Continental Corp., is identified as a subject of investigation.

April 1989 — Lincoln Savings seeks to change from a state charter to a federal charter. John Rousselot, a former Republican congressman from California, replaces Ray Fidel as Lincoln president and tries to form an investment group to buy Lincoln Savings. American Continental stock dives amid speculation of bankruptcy or a federal takeover of Lincoln. The Rousselot purchase attempt falls through. American Continental files Chapter 11 bankruptcy papers.

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American Continental's case threatens to overwhelm court

By Russ Hemphill
The Phoenix Gazette

American Continental Corp.'s bankruptcy petition hit the U.S. Bankruptcy Court in Phoenix at 4:34 p.m. Thursday, more than a half hour after closing time.

Clerks took about 2½ hours to stamp in all the paper work associated with the filing and expect more paper work today.

O'Brien

The filings for reorganization under Chapter 11 of the U.S. Bankruptcy Code, which bankruptcy clerk Kevin O'Brien described as "pretty bare-bones," freeze all actions by creditors against American Continental and 11 of its subsidiaries now in bankruptcy court.

The petition lists total assets of $3.9 billion and liabilities of $2.8 billion.

Chapter 11 gives Keating's companies breathing room from their creditors — including from the Federal Savings and Loan Insurance Corp. if it takes over Lincoln Savings and then presses the company to pay any loan payments due — while it tries to reorganize under the direction of a judge.

The filings had been expected for the past week, and lawyers at the Phoenix law firm of Lewis and Roca made arrangements for the late filing, telling court officials that they probably would file a large case Thursday or today.

The lawyers, however, did not identify American Continental before the actual filing, O'Brien said.

The case was assigned by random draw to Judge Sarah Sharer Curley, the newest of the three Phoenix bankruptcy judges.

Curley is the judge overseeing what before the Continental filing had been the largest bankruptcy case in Arizona, Residential Resources Mortgage Co. "That's like peanuts compared to this," O'Brien said.

And the recorded value of the assets and liabilities might grow.

"They are evaluating their assets. There is no telling how much they are really worth," O'Brien said.

The sheer size of the case threatens to overwhelm the Phoenix court, which is having trouble coping with record increases in the number of filings.

Court officials are planning to establish a telephone line that would provide daily updated information on the American Continental case.

Bankruptcy courts in other jurisdictions have rented convention meeting halls to accommodate creditors in other very large first meetings of creditors, and the Phoenix court could be forced to do the same.

Major U.S. bankruptcies

Largest companies to file for Chapter 11 protection from creditors in Bankruptcy Court, the year they filed and their assets in billions.

Company	Filed	Assets
Texaco Inc.	1987	$35
Baldwin-United Corp.	1983	9.4
Penn Central Corp.	1970	7
LTV Corp.	1986	6.0
AMERICAN CONTINENTAL	1989	3.9
Pub. Serv./New Hampshire	1988	3
Manville Corp.	1982	2
Wickes Cos. Inc.	1982	2
Eastern Airlines	1989	1+
Wheeling-Pittsburgh Steel	1985	1
Storage Technology Corp.	1984	1

Source: The Associated Press

(1)

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(Mount Clipping in Space Below)

Bankruptcy hit charity 'like a ton of bricks'

By Clay Thompson
The Phoenix Gazette

Aftershocks from the American Continental Corp. bankruptcy were being felt today on some mean streets far removed from the company's posh offices and luxury hotels.

Chairman Charles H Keating Jr. is well known for his generosity to charitable causes, and American Continental's Chapter 11 filing Thursday left some recipients of that generosity, especially the St. Vincent de Paul Society, wondering if the well is dry.

One St. Vincent staffer said word of the bankruptcy hit the charity "like a ton of bricks," but director Gary Brown said, "We really don't know what the impact will be."

In 1983, Keating pledged that American Continental would contribute $25,000 quarterly to St. Vincent de Paul for 10 years. Keating's giving often exceeded that pledge, Brown said.

"They have been very supportive of us over the years," he said. "He (Keating) is very committed to us and to the homeless and the poor.

"I don't know what else I can say until I've had a chance to talk to him about it. Our prayers go out to him."

A loss or interruption of the Keating pledge would come at an especially bad time for the St. Vincent de Paul Society, which operates a charity dining room and provides many other services for the homeless and needy. The charity, Brown said, is running about $56,000 behind in it's $1.7 million fund-raising needs.

Mark Connally, an American Continental spokesman, said the charity might have to wait in line at bankruptcy court like other creditors. However, Connally said he did not know if the $25,000 quarterly gifts were a pledge by the corporation or by Keating personally.

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Keating's firm files Chapter 11

Debts of $3 billion listed

By Lisa Morrell
and Jean Novotny
The Arizona Republic

American Continental Corp. of Phoenix filed a petition for reorganization under federal bankruptcy law Thursday, saying it had debts totaling almost $3 billion and more than 25,000 creditors.

The filing could well be one of the largest Chapter 11 cases in U.S. history and is clearly the largest case in the history of the Arizona district of the federal Bankruptcy Court, according to Kevin O'Brien, clerk of the court in Phoenix.

American Continental Chairman Charles H. Keating Jr. said the company took the drastic action to protect the interests of its stockholders and the people who had lent the company money.

He blamed the firm's financial turmoil on federal savings and loan regulators, and said the Federal Home Loan Bank Board was trying to seize the California S&L that American Continental owns.

One of the Valley's leading financial executives speculated that Keating filed for court protection to prevent creditors from going after the assets of American Continental.

American Continental is one of the Valley's best-known business enterprises because of its highly visible role in area development and because of Keating's personal involvement in community events and activities.

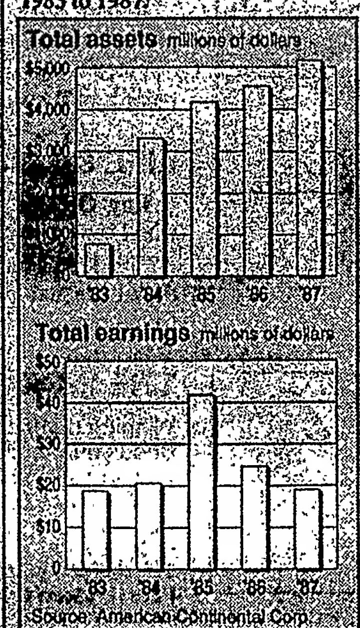
The company's business is financial services and real estate. It is the majority owner of The Phoenician, a megaresort at the base of Camelback Mountain in Scottsdale, and The Crescent Hotel in Phoenix, and the developer of Estrella in west Maricopa County and other commercial developments in the Valley.

It took 12 11- by 24-inch boxes to hold all of the documents filed in connection with the massive Chapter 11 case. Two large carts were used to haul the boxes into the court. The case has been assigned to Judge Sarah Curley.

The filing seeks court protection for American Continental and 11 of its subsidiaries under Chapter 11 of the U.S. Bankruptcy Code. Under Chapter 11, the most frequently used form

— See KEATING'S, page A9

AMERICAN CONTINENTAL CORP.
Total assets and net earnings from 1983 to 1987



Don Foley/The Arizona Republic

RELATED STORIES

IN FOCUS: The saga of Keating's empire, **A2**

VALLEY'S LOSS: Firm's demise may cost jobs, investments, **F1**

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CHAPTER 11

The most frequently used chapter of the Federal Bankruptcy Act, Chapter 11 allows a company to obtain a federal court order that frees it from the threat of creditors' lawsuits while it develops a plan of reorganization.

While the reorganization is taking place, the court must approve all management activities.

The reorganization plan must be accepted by a majority of the firm's creditors.

Source: The Associated Press

Keating's firm files Chapter 11

— KEATING'S, *from page A1*

of Bankruptcy Court filing, a company seeks authority from the court to reorganize its businesses, free from threats of lawsuits by creditors.

The petition filed for American Continental Corp. lists assets of $454.7 million and liabilities of $358.9 million and controlling interest in 55 companies.

The largest of the filings was for an American Continental subsidiary called Amcor Funding Corp., which has assets of $935.6 million and liabilities of $820.8 million. Amcor controls the Phoenician Funding Corp., Continental Fidelity Life Insurance Co., American Founders Life Insurance Co. and Amcor Insurance Group.

Besides American Continental and Amcor Funding, the subsidiaries that have filed Chapter 11 petitions are SSFLC, a shell corporation, which controls the Phoenix investment-banking firm of Young, Smith & Peacock Inc.; Phoenician Financial Corp.; Phoenician Commercial Properties Inc.; Provident Mortgage Corp.; Amcor Investments Corp., which controls the Estrella development in Goodyear; Crescent Lending Corp.; Linfin Corp.; Castle Meadows Inc.; the Crescent Hotel Group; and Cresfin Corp.

The filings do not involve The Phoenician and The Crescent Hotel.

A statement from American Continental said that those properties' operations would not be affected or impaired by the filing. American Continental owns 55 percent of those properties.

Company spokesman Mark Connally said American Continental had no comment other than a one-page press release. He said the company plans to hold a press conference Monday.

In his statement, Keating tied the filing to a decision by the Federal Home Loan Bank Board in Washington, D.C., to take over Lincoln Savings and Loan Association of Irvine, Calif.

Lincoln, which has $5.4 billion in assets, is American Continental's largest subsidiary. American Continental has been trying to sell Lincoln for more than a year, but three attempts have failed. The bank board had been considering the latest offer from a group led by John Rousselot, a former congressman from California.

A spokesman for the bank board declined to comment Thursday.

Despite a drastic revision of the Rousselot group's offer and concessions by American Continental in the past few weeks, the bank board apparently rejected the Rousselot bid.

Because of that, "we believe that we have taken the only course of action that will maximize the value of American Continental for the benefit of our bondholders and shareholders," Keating said in the statement.

Lincoln Savings' deposits are insured by the Federal Savings and Loan Insurance Corp. If American Continental continues to refuse regulators' demands to turn over Lincoln, regulators' next step may be to consider withdrawing the thrift's insurance, said Michael Conover, president of Ryan, Beck & Co./Pacific, a Los Angeles based firm that specializes in banks and thrifts.

He added that filing Chapter 11 "has been the status quo when they take away your largest asset, to protect the corporation's other assets."

The news of the filings came as no surprise to the investment community, said Bert Ely, whose Alexandria, Va.-based consulting firm specializes in the thrift industry.

Ely predicted that federal regulators would seize the troubled Lincoln Savings today as a result of the filing.

"I don't see how they can avoid it," Ely said.

He questioned what would happen to the investments in American Continental by the holders of more than $215 million of the company's subordinated debentures.

About 23,000 of the company's creditors are bondholders. Those debts are backed only by American Continental's earnings.

"You're going to be seeing a lot of tears over that," Ely said.

He predicted that some of the company's top executives may file personal bankruptcy petitions as well.

American Continental is laboring under a severe cash-flow crunch. Talk of the filing had been rampant during the past week.

American Continental was scheduled to file its year-end results for 1988 by April 15 with the Securities and Exchange Commission. The company had used a 15-day extension that the SEC allows.

American Continental lost $36 million in the first nine months of last year.

The company bought Lincoln Savings for $51 million in February 1984. Since then, Keating has fought with regulatory officials over Lincoln Savings' use of depositors' money for risk-oriented investments, such as raw land and junk bonds.

One American Continental manager said that meetings were held Thursday in the company's different divisions to announce the situation.

"A lot of employees expressed relief that a direction has been taken," the manager said. "But of course a lot of people are wondering, 'What next?'"

At the meetings, employees were reassured that they would receive paychecks as scheduled.

AMERICAN CONTINENTAL

1976: American Financial Corp. spins off its Continental Homes division. Charles H. Keating Jr. takes command.

1978: American Continental goes public.

1984: American Continental buys Lincoln Savings and Loan Association of Irvine, Calif., for $51 million.

1985: American Continental sells its Continental Homes division so it can focus on land development and financial services.

1986: The Federal Home Loan Bank Board of San Francisco begins an examination of Lincoln Savings.

The board's examiners say they have found $135 million in losses. Lincoln contests the findings.

1987: The Crescent Hotel opens in northwest Phoenix.

William Hinz becomes chairman of Lincoln Savings.

The Securities and Exchange Commission begins an investigation of American Continental's transactions and investments.

1988: The bank board recommends Lincoln be put into conservatorship.

Hinz resigns ostensibly to lead an investment group interested in buying Lincoln. The deal later collapses.

The bank board assumes supervision of Lincoln and begins its own review.

American Continental reports a loss of $36 million in the first nine months of the year. Lincoln now accounts for $6 billion of American Continental's assets of $6.9 billion.

A bank-board report concludes that Lincoln does not meet minimum capital requirements.

American Continental announces an agreement to sell Lincoln to a group headed by Spencer Scott of Glendale, Calif.

1989: Keating says the Lincoln sale is crucial to the company's future. The U.S. attorney's office in Los Angeles reveals an ongoing criminal-fraud investigation of Lincoln.

Another investment group, headed by former U.S. Rep. John Rousselot, discloses its offer for Lincoln. The Scott group's bid is rejected by the California Department of Savings and Loan.

Ray Fidel resigns as president and chief executive of Lincoln. He is replaced by Rousselot.

The bank board demands that Federal Saving and Loan Insurance Corp. take control of Lincoln. American Continental files for protection under Chapter 11.

(Mount Clipping in Space Below)

Fate of lavish Phoenician uncertain

By Jean Novotny
The Arizona Republic

The monumental Phoenician Resort, bu[illegible] Charles H Keating Jr., is about to becom[illegible] centerpiece in a monumental fight ov[illegible] ownership.

Keating spent tens of millions of dolla[illegible] build the lavish resort, and now he's going to have to spend tens of thousands of dollars mor[illegible] to hang on to it.

His fight in U.S. Bankruptcy Court will be with an agency of the federal government. The Federal Home Loan Bank Board says there is a possibility the majority ownership of The Phoenician rests with Lincoln Savings & Loan Association. The bank board threw Lincoln into conservatorship Friday, just a day after American Continental Corp. and 11 of its subsidiaries, including several controlled by Lincoln and that have interests in the resort, reorganization under Chapter 11 of the Federal Bankruptcy Act.

Lincoln is a subsidiary of American Continental Corp., the financial-services and real-estate company headed by Keating.

On the sidelines with its fists bared is McCarthy Western Constructors Inc., the Phoenix construction company that built The Phoenician. McCarthy is owed about $19 million on its contract for the resort and has filed a lien on the property.

The [illegible]cian clearly contributed mightily to the [illegible] of American Continental Corp. It was [illegible] sinkhole.

The comp[illegible]pared no expense to build the resort, which [illegible]raddles the line between Phoenix and Sc[illegible] and has been widely praised and criticized [illegible] its no-holds-barred extravagance.

Ye[illegible] the company spent millions to serve the [illegible]end of the market may be the key to the [illegible] survival even as American Continental and some of its subsidiaries face reorganization under Chapter 11 of the U.S. Bankruptcy Code.

The [illegible] and its sister property, the Crescent Hotel in Phoenix, were not included in the Chapter 11 filings but likely will figure in the proceedings because of their connection to American Continental.

It's seemingly contradictory, but American Continental executives do consider the lavishness of The Phoenician to be the very reason for what they consider the resort's success during its first six months of operation.

It found its niche, and the niche was catering to people, including many celebrities, who like opulent surroundings and are willing to pay $5.95 for a malt, $19.50 for a shrimp cocktail and $235 to $3,500 a night for a room.

"The hotel business is very difficult," Keating

— See FUTURE, page E6

COMPANY PROFILE

Nine-month results as of Sept. 30 for American Continental Corp. Year-end results not yet available.

Assets .... $5.9 billion
Revenues .... $128.8 million
Net loss .... $35.6 million
Loss per share $2.26
Employees 3,000

Principal subsidiaries: American Continental Properties Inc., Lincoln Savings and Loan Association, AMCOR Funding Corp., AMCOR Investments Corp., American Founders Life Insurance Co., Continental Fidelity Life Insurance Co., Insurance West Inc., LINFIN Corp., Phoenician Commercial Properties Inc., Phoenician Financial Corp., Crescent Hotel Group.

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Future of lavish Phoenician is uncertain

— FUTURE, *from page* [illegible]

the controversial chairman of American Continental, said in an interview in January.

"And deciding to go after 1 percent of the market was very difficult; it's where you can bend your lance.

"But it has worked so far."

As evidence, he cited:

- A projected occupancy at The Phoenician of 85 percent for this year. That's considered quite high in this overbuilt market; 60 percent is the break-even point.
- About $7 million in sales in the first three months of operation, or about twice what the resort had expected to do in October, November and December.
- Sales of $5.5 million, including $1.5 million in banquet revenues, in January alone and projected sales of $60 million for the year.
- As many as 700 phone inquiries a day, resulting in bookings for about 200 rooms. That is considered significant because The Phoenician is not part of a chain or connected with a reservations network.

Risky business

Still, Keating is well-aware the hotel business is fraught with financial problems.

In recent years, several Valley properties, including the Wyndham Paradise Valley in Paradise Valley, the Sheraton San Marcos in Chandler, and the Hilton Pavilion and the Ramada Renaissance, both in Mesa, have had almost-fatal financial problems.

If problems arise, it is usually early in the history of a hotel or resort, and first owners typically lose out to mortgage holders.

However, there is no mortgage on The Phoenician.

McCarthy would have first claim on the property by virtue of its lien on the resort. It claims in papers filed with Maricopa County Superior Court that it is owed at least $18.5 million for its work on the property.

But Gerald Murphy, president of McCarthy, said the company is just interested in getting its money and not in taking over the resort. Besides, he suspects that if the resort were put up for sale, the other investors would step forward, buy it and pay off the lien.

American Continental owns 55 percent of the hotel. The other portion is owned by investors from Kuwait.

The resort is likely to prove salable if it is ordered sold to satisfy creditors. Industry insiders say plenty of people would be interested in buying the property.

Cost called too high

None, however, would want to pay what American Continental put into the property. Even wealthy foreign investors would balk at the cost, those in the know say.

The last word from Keating was that the resort cost somewhere between $260 million and $265 million to build, but he has said that cost could be reduced by $30 million to $40 million if the company decided to [illegible] 80 home lots on the property. Another option is constructing about 200 more casitas — the resort has 131 [illegible] condo-style units — and selling only 35 home lots.

The resort would be sold only at a great emotional cost to Keating. He is not likely to give it up without a big fight.

The 65-year-old Keating, who spent his career in finance and real estate development, got into the hotel business purely for financial reasons and really by accident. But he literally has fallen in love with the business.

He said he enjoys it more than anything he has ever done and calls is a 24-hour party.

Keating, who drives himself as hard as he does his employees, has spent night and day at The Phoenician for more than a year, first to see that it was completed on schedule and now to make sure everything runs perfectly. No one can accuse him of not minding the store.

It is his baby, and some say he has doted on it at the expense of his other interests.

Keating touts the 605-room resort as the world's finest. He brags that the service level is unmatched.

A check with Nutri-Systems Inc., a company that held its world convention at the Phoenician in February, backs that assertion.

"The service was phenomenal — they just couldn't do enough for us," said Elaine Schleigh of Nutri-Systems.

"They went above and beyond the call of duty. They handled us well considering our problems, and we did indeed have problems. None because of the hotel but because of the nature of the convention."

Room rates among highest

Jeff Johnson, the resort's director of marketing, said the resort's rates are at the top end of those charged in the Valley.

But he added, "We feel we're in the top 1 percent of the market, and we feel we deliver service comparable with the price we're asking. It's always been easy for me to ask the prices we do, knowing what we have to offer."

The prices the resort charges for rooms are staggering to people of ordinary means.

Yet, Jerry Landis, a longtime observer of Valley resorts and a fan of The Phoenician, said the rates at the facility are not out of line when compared with those in other major cities of the world.

"I very definitely think the international clientele are used to paying in the $300 range and not getting the facilities The Phoenician has," said Landis, owner of Landis Aerial Surveys.

Landis said The Phoenician is an exciting place to visit and provides a "huge window" through which visitors can view the Southwest.

"This hotel, at some point, is going to be a great hotel," Landis said.

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(Mount Clipping in Space Below)

KEATING'S COLLAPSE

Mystical land 'too good to be true'

'Invincible' empire shaken by Chapter 11

By Lisa Morrell

[illegible] American Continental Corp. [illegible] company [illegible] Camelback Road [illegible] entering a mystical [illegible] eccentric world.

It's a world of relatively high pay and long hours and carefully maintained appearances. Some liken it to a cult whose millionaire leaders — the Keating family — are fanatical about keeping order and loyalty.

In the workplace, that means periodic purges of clutter. Employees are under rules to completely clean off their desks every night — no plants, please, and few, if any, personal items. The stark environment is one of the first things that visitors notice.

For employees, it means being meticulously well-groomed, well-dressed — and well-behaved even when things aren't going well.

For years, it seemed to workers that the foundation of this world was unshakable. The money flowed. It supported high-class parties, a minifleet of jets and a lavish lifestyle for many.

The world of American Continental has revolved around the commandeering persona of its leader, Chairman Charles H Keating Jr.

But the land of plenty was built on a California thrift called Lincoln Savings and Loan Association. And last year, employees began to notice that the foundation was cracking.

An American Continental manager, who requested anonymity, said that as recently as a year ago he never would have thought any serious financial trouble could shake the company's "invincible" empire.

But since January, at least 350 to 400 workers have left the $6.9 billion company, according to a former American Continental executive. That's more than 10 percent of the company's total employment at the start of the year. American Continental is caught in a severe cash-flow crunch. It filed for protection from creditors under Chapter 11 of the U.S. [illegible] American Continental employees [illegible]

Charles H. Keating [illegible] American Continental Corp.

"We just used to have this feeling, and the management used to convey it to us, that ACC had an unlimited amount of capital and we were just going to grow and grow and grow, and that the money would just keep coming, and now, of course, that isn't true," the manager said.

The Chapter 11 filing came after the federal government said it intended to seize American Continental's largest subsidiary, Lincoln Savings and Loan of Irvine, Calif. The government put Lincoln into conservatorship Friday. American Continental's use of money deposited in Lincoln for risk-oriented investments has been the focus of bitter and long-running battles with regulators.

Tired of the fight, American Continental last year began trying to sell its $5.4 billion thrift.

And soon reality began to ground a situation that the manager calls "too good to be true."

Some employees now realize that American Continental's seemingly endless supply of money was not based on some magical financial wizardry, he said.

"What we actually had was depositors' money to spend. That's kind of a sobering reality, especially when you think about what may happen because of it," he said.

A year ago, Keating claimed victory in a more-than-2-year-long battle with federal regulatory officials. There seemed nothing that could topple the wealth and power of American Continental and Keating, the manager said.

Now, the company is in Bankruptcy Court.

— See 'INVINCIBLE,' page E6

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'Invincible' empire was 'too good to be true'

INVINCIBLE / from page E1

proceedings. It is trying to reorganize its finances and its businesses. Employees worry whether the company will survive and crawl back to [illegible] health."

Morale at the company hit bottom about a month ago, when a deal to sell Lincoln Savings fell through.

"It looked like doom might be pretty imminent," the manager said.

Some employees left, some not by choice. Most employees who stayed are optimistic that the company will survive, even now that it has filed for protection from creditors, he said. Employees were relieved it chose reorganization rather than liquidation.

'Situation to be easier'

"The situation is going to be a lot easier for (American Continental) to deal with because they've got some protection now," the manager said.

The company has moved some of its workers — many support staffers, such as messengers and secretaries — from company headquarters to its Phoenician Resort in Scottsdale or its Crescent Hotel in Phoenix.

"They're trying to get as many people out of jobs they know they're not going to have for very long and move them into positions where they[illegible] going to have some longevity," the [illegible]ager said.

[illegible] American Continental executive [illegible]ught he had longevity and secu[illegible]. Then he got the ax this mon[illegible].

"[illegible] angry, I'm hurt, I'm mad, but they[illegible] done," he said.

All he wants from the firm now is the money he has coming, he said. But the financial problems worry him.

"The thing is getting to a point now where people are panicking. It all boils down to money. Everybody wants to know if they're going to get their money and nobody can get an[illegible] answer," the executive said, speaking on condition of anonymity.

Keating apparently has been [illegible] silent to his employees as he has bee[illegible] to the media.

"I just think that he should come forward and tell the people that are working for him now where are we at, where we're going and what's going to happen," said the executive, who speaks as if he still works for the company.

Workers told last week

In brief meetings Thursday, employees were informed of the Bankruptcy Court filing, but not much else.

"The situation at American Conti[illegible]nental is, it's not a sinking ship," the former executive said. "The ship has *sunk*. It's just that all the survivo[illegible] haven't jumped overboard yet."

One American Continental em[illegible]ployee, who worked in a technic[illegible] department, didn't think she'd [illegible] asked to abandon ship quite [illegible] abruptly.

Near the beginning of the year, the head of her department held [illegible] meeting with his workers.

"We were basically told we really didn't need to worry about being laid off," she said.

A month later, the department head called other meetings. This time he spoke one-on-one with the five or six employees.

He said he hadn't expected to have to cut back, "'but it has to be done [illegible] had nothing to do with your [illegible] performance or anything like that, [illegible] thank you very much, bye!'" she [illegible]called.

[illegible]fore she left, however, she had to [illegible] a confidentiality agreement. She [illegible] received a few weeks' severance pay, but that was substantially less than [illegible] employees got in more-prosperous [illegible].

[illegible] said she does not carry hard [illegible] feelings toward her former employer, who demanded at least 10-hour workdays but paid well in return. But [illegible] questions the ethics of letting people go without any warning.

She wonders where other former American Continental workers who used to bring home hefty salaries will find comparable jobs in the Valley, especially those who bought a home, for example, based on their pay at the company.

Woes noticed at holidays

Some employees first noticed a [illegible] of trouble at Christmas, she [illegible]. American Continental workers [illegible] slim Christmas [illegible] week or more of [illegible] to, they each [illegible] a gift certificate for $100 to [illegible] at Keating's Phoenician [illegible] the Resort.

[illegible] the end of catered breakfasts and [illegible] for the executive floor told the former American Continental staffer [illegible] was not well as early as last fall, she said, speaking anonymously. American Continental executives [illegible] had worried about costs. Then [illegible] things came under scrutiny, from the supply of Pepsi for employees to the use of Federal Express.

[illegible] was shortly before she was fired without warning last fall. She had been part of the "in crowd" at the company, frequently selected from the many attractive young women employed by American Continental to act as a hostess at company and Keating family social events.

In her subsequent job search, she said, she was willing to take a pay cut of several thousand dollars. But one potential employer wouldn't even consider her because of the level of her former salary, she said. Still, her experience at American Continental helped her land a management position at the same salary within a month.

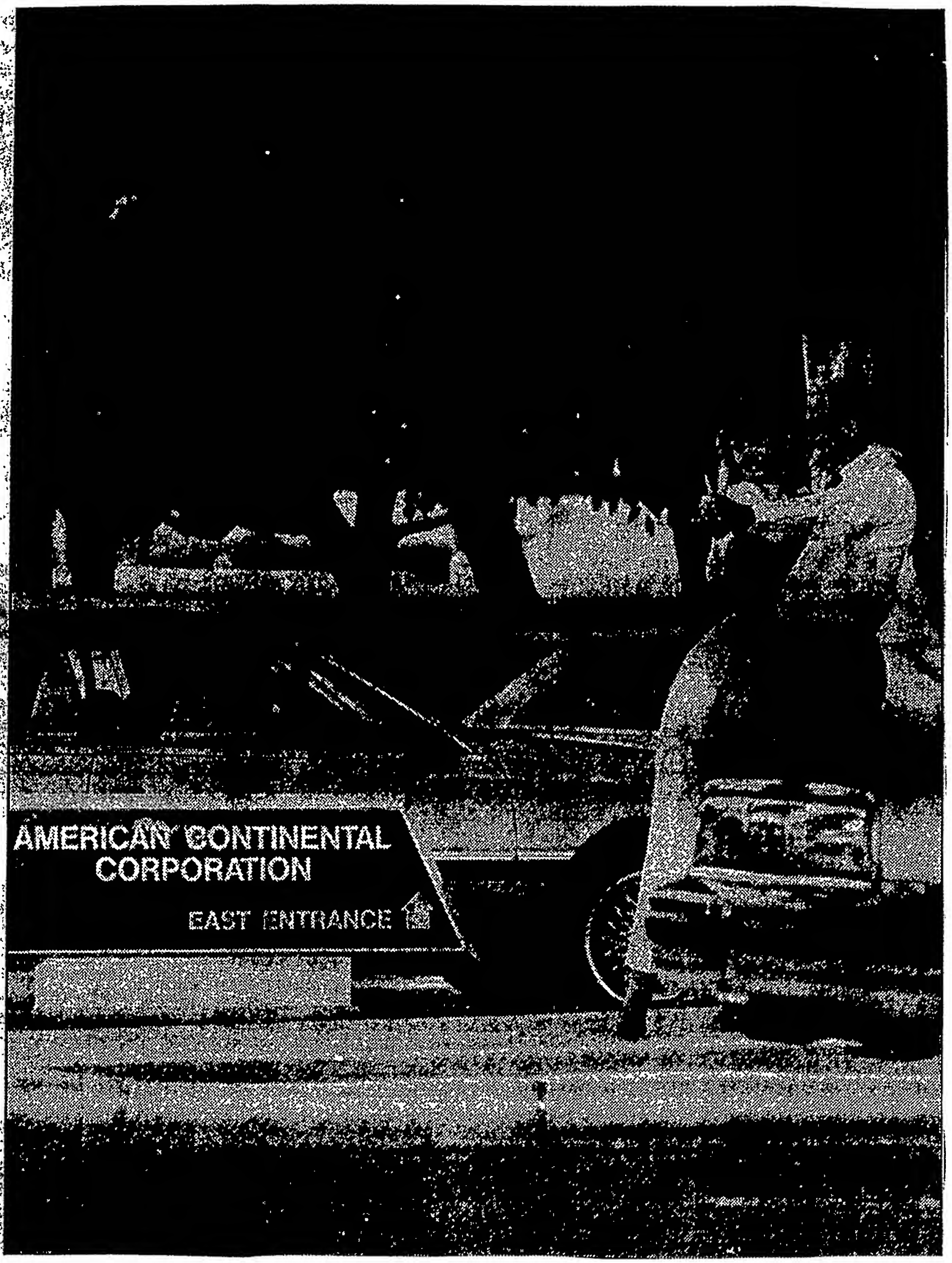
American Continental is a name that employment agencies in the Phoenix area said they have dealt with more and more in the past several months. A number of agency managers said American Continental workers have top-notch qualifications.

"Most people that are leaving American Continental do recognize they have had a higher salary than market and are willing to accept less," said Vikki West, vice president of Accountemps, a division of Robert Half Inc. of Arizona.

The company has had a reputation of paying "high" salaries.

Since January, about a half-dozen currently employed American Continental managers have contacted Roberson and Co. of Phoenix to look into their job options, said Steve Silvas, president of the agency. He tagged them "middle-management people who are concerned that they are in 'shaky city.'"

Or, at least compared with last year, in a different world.



Was it the last tango on Camelback Road these two employees of American Continental Corp. were dancing after work Friday or a waltz into the future?

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Catholic charities in Valley lament Keating plight

Gifts may ebb; sisters praying hard for Charlie

By Art Thomason
The Arizona Republic

The plunge of the American Continental Corp. into financial problems has left leaders of the Valley's Catholic charities praying for Charles H. Keating Jr., the corporation's chairman and one of their leading contributors.

The St. Vincent de Paul Society and the Little Sisters of the Poor mission work of Mother Teresa have been two of the largest beneficiaries of Keating's generosity.

"The sisters here in Phoenix have been praying very hard for Charlie, and I know Mother Teresa will, too," said the Rev. Dale Fushek, vicar of the Phoenix diocesan Office for Worship and pastor of St. Timothy Catholic Church in Mesa.

"Prayers have a power, and I know Charlie will land on his feet."

DREAM IN DANGER: Questions loom over Estrella, **C1**

Since 1976, when Keating purchased the company, American Continental has given millions to various charities, including $1 million to Mother Teresa, who won the Nobel Peace Prize in 1979 for her work with the poor in Calcutta, India. From 1984 to 1986, the company gave more than $6 million to the world's charities, company officials said.

Officials of some of those charities in Arizona said Sunday that American Continental's filing Thursday for protection from creditors under Chapter 11 of the Federal Bankruptcy Code would be devastating.

"This is a major blow," said Gary L. Brown, executive director of the St. Vincent de Paul Society.

Brown said that in 1983, American Continental made a 10-year pledge to contribute $100,000 annually to the society's general fund.

"A lot of times they went way beyond that," Brown said. "We really haven't had a chance to assess the impact (of the Chapter 11 filing) yet.

"Although the contribution was less than 3 percent of our annual budget, it's going to have a significant impact because it was a contribution to our general fund. A lot of our donations come in the form of food and clothing."

Brown said St. Vincent de Paul workers have observed an increase in the number of people seeking help and a decline in contributions this year. The charity has an annual general fund budget of about $1.5 million.

"It's not good for the atmosphere," he said. "This community is having a very tough time, and we're noticing it.

"We're down from our (donations) goal by $50,000 already this year. And we're helping more people who are in their homes with food to keep them from ending up in the street.

"As a community leader, I'm very concerned about the economy and the direction we're going."

Brown said he has not spoken to Keating about whether he will continue to contribute to the charity personally.

Keating could not be reached for comment.

Bishop Thomas J. O'Brien said he expected Keating to continue giving despite his company's problems.

"He's been extremely generous to us and in his own way and his own time, he will continue to give to us. He has a great love for the church," O'Brien said.

"We'll be praying for him and the community as well," Brown said. "He (Keating) has always been very fair and gone out of his way for us.

"I'm sure if it's in his possibility, he'll help us. The man has done a lot for the poor in this community and around the world."

Fushek said American Continental's troubles would have a "tremendous impact" on Mother Teresa's work internationally. However, the priest said a foundation house started last year by Mother Teresa to help the poor in Phoenix probably would not be affected.

"That's a grass-roots thing, and the money has been contributed locally," Fushek said.

Keating's generosity has been credited with influencing Mother Teresa's decision to come to Phoenix. She has a waiting list of at least 100 bishops

— See VALLEY'S, page B2

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Valley's Catholic charities lament Keating firm's plight

VALLEY'S, *from page B1*

who want the "living saint" to help them.

"People are genuinely aware of how generous he has been," Fusek said. "It took me by surprise. People are taking this very personally."

Other Arizona groups said that American Continental's Chapter 11 filing might have an indirect affect on their work.

Betsy Bolding, acting manager of the Phoenix office of the Arizona Theatre Company, said that the organization never has received a major gift from Keating. However, it has received contributions from subsidiaries of American Continental.

Bolding said that although the American Continental difficulties in themselves wouldn't cause the theater company major problems, it is "a reflection of the economy in general."

Glynn Ross, general director of the Arizona Opera, said that for his production of *Lakme* in January, Keating underwrote the appearance of the two stars, soprano Beverly Hoch and tenor Carroll Freeman. Glynn estimated the dollar amount to be approximately $15,000.

Ross said that he does not think that the absence of future contributions from Keating will affect his organization but that he is unhappy because any such problem creates "a negative climate."

Officials for the Phoenix Symphony and the Arizona Ballet said Keating never made financial contributions to their organizations.

In addition to Mother Teresa and the St. Vincent de Paul Society, other beneficiaries of Keating's generosity include:

- A fund drive to build the Arizona Peace Officers' Memorial. Keating gave $25,000. The project honors the state's law-enforcement officers who have died in the line of duty.
- The Encanto Carousel Fund and the drive to restore the carousel at Encanto Park. Keating gave $20,000.
- The Sacred Heart Home for the Aged. A Keating firm, AMCOR Investments, gave land valued at $1.3 million in Chandler. The home, operated by the Little Sisters of the Poor, had to leave its Phoenix building to make way for the Papago Freeway.
- The east Valley homeless. Keating gave $25,000 in 1987.
- The Sisters of Charity of Cincinnati, Keating's hometown. Keating gave $444,000.
- Groups advocating public decency and a ban on pornography. Keating gave thousands of dollars through a group he founded, Citizens for Decency Through Law.

Contributing were Cathryn Retzlaff Creno, Kim Sue Lia Perkes and Hal Mattern *The Arizona Republic.*

Project's shaky prospects rattle Goodyear, too

By Joyce Valdez
The Arizona Republic

Civic and business leaders of Goodyear, who had linked their big-city dreams to the now-crippled American Continental Corp., remain hopeful the community will thrive on its own.

The city's close relationship with American Continental dates back to August 1986, when the City Council approved an agreement governing construction of Estrella, a 20,000-acre mixed-use development, with the American Continental subsidiary that controls the project.

At the time, Goodyear officials were confident the city would quadruple in just a decade to a population of 40,000.

Their hopes have been deflated by American Continental's filing for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code.

"It will definitely be a setback, not just for Goodyear but for the whole Valley," City Manager Ernie Kleinschmidt said. "How it will hurt the city, we're not quite sure, but it will definitely have an impact. ... It will hurt us pretty well."

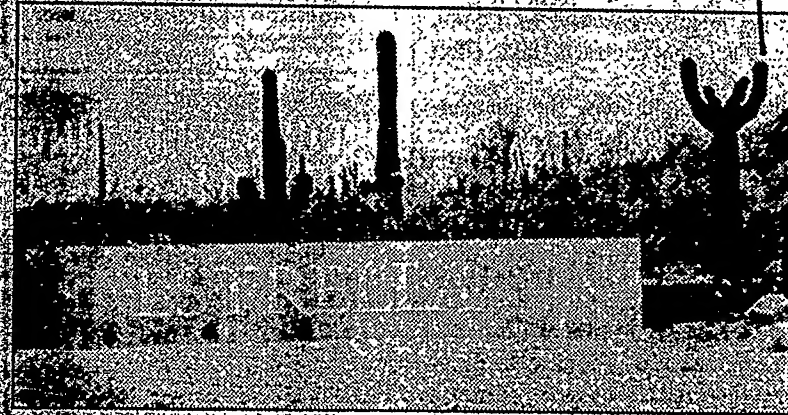
American Continental executives have played a key role in the west Valley's economic-development efforts, Kleinschmidt said.

"They've been very, very active in getting industry to come in and take a look at us," he said. "Everyone looked toward them to get things on the move for us."

Goodyear Mayor Carl Gow said, "We will have to find some way we can go ahead and get that development (Estrella) going again."

Gow said the city does not regret its relationship with American Continental, adding, "They put $70 million worth of infrastructure out there. Everything they've done here has been first-class."

Ilo Gregory, a city councilman when the master plan was approved, views the Chapter 11 filing as "a dark cloud, but, hopefully, it will roll away."



So much money has been invested in Estrella that some real-estate experts think its momentum will carry it forward.

Gregory said he hopes American Continental can reorganize; otherwise, "it will be a terrible blow to the Valley."

Gregory is confident that American Continental Chairman Charles H. Keating Jr. will guide the company through its crisis.

"He's much too sharp to get himself (financially) wound up like that," he said.

John Mistler, chairman of the Western Gateway Team, the west Valley's economic-development group, said the corporation's problems would not detract from the region's assets.

The west Valley's access to Interstate 10, casual lifestyle and

— See GOODYEAR, page C4

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Goodyear hopes to thrive by itself

GOODYEAR, *from page C1*

land that is inexpensive by east Valley standards are still strong selling points, he said.

"It's got to be 'business as usual' for us," he said.

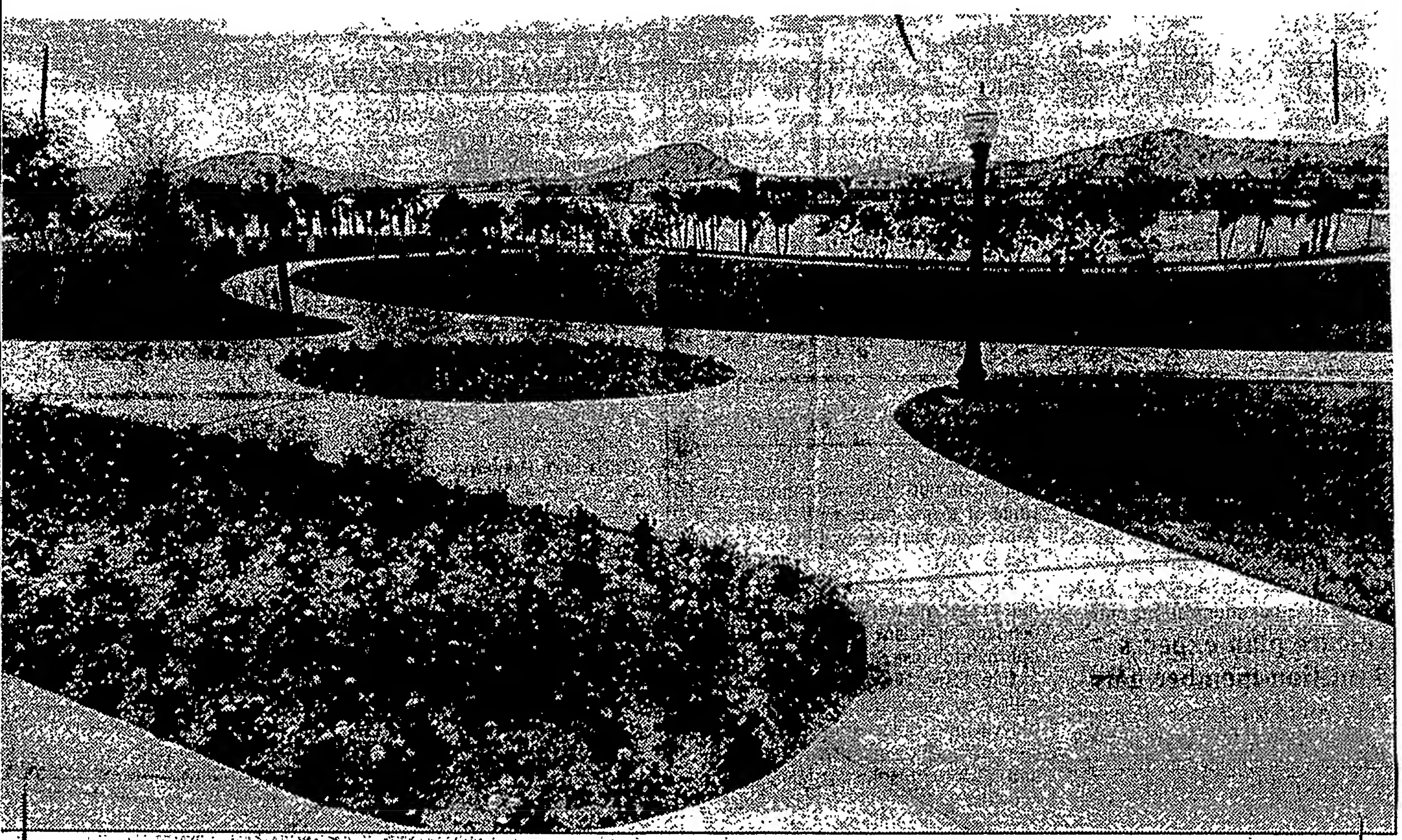
"Western Gateway will just have to work harder to implement the things we've outlined in our marketing plan, which is recruitment of business and industry."

He added, "I don't think American Continental is done yet."

Michael Harbushka, co-owner of ERA Tres Realty, based in Goodyear, said he hopes American Continental's action reflects a "bump" in the road toward greater prosperity for the area.

"The very ingredients that attracted American Continental to the west Valley are still here," he said.

"Once things settle down, I also think it will be business as usual."



Mike Smith/The Arizona Republic

The principal recreation area at the sprawling Estrella development near Goodyear features two large lakes and extensive landscaping.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Questions loom over Estrella

Keating project huge, threatened

By Ken Western
The Arizona Republic

Aaron and Rose Curtin leaned forward and studied the scale model of the massive Estrella development taking shape in the desert southwest of Phoenix.

Displayed before the couple were miniature artificial lakes, home sites, parks, an 18-hole golf course, retail centers and other amenities envisioned for the first phase of the master-planned community.

"Wow," Rose Curtin said as the couple took in the breadth of the development at Estrella's Information Center a few weeks ago.

"Amazing," Aaron added.

Curtin is not the couple's real name, but just outside the adobe information center is the real Estrella. It too is impressive.

The project sprawls across about 20,000 acres at the base of the Sierra Estrella Mountains, south of Goodyear.

But hanging over the entire development are big questions about its future. That's because the company that is developing Estrella, American Continental Corp. of Phoenix, filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code late last week.

The big question is whether Estrella will wind up as the most expensive community never built in the West, a region whose history is filled with real-estate booms and busts.

But several developers and economists say so much money, upwards of $100 million, has been invested in Estrella's infrastructure that it will move forward on sheer momentum.

Charles H Keating Jr., chairman of American Continental, envisioned Estrella as "a new modern city" that would become home for 200,000 people over the next 20 to 30 years.

That could still happen, but it may not happen with Keating at the helm as he attempts to reorganize his company and figure out how to begin

—See ESTRELLA, page C4

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Estrella development suddenly has uncertain future

—ESTRELLA, from page C1

paying off $3 billion in debts.

At this point, Estrella resembles an elaborate stage readied for a play yet to unfold.

Parkway beckons visitors

A landscaped parkway with flowering plants beckons visitors to the development, which also has about 10 miles of arterial roads and two lakes covering 72 acres.

Surrounding the lakes are well-appointed ramadas, a pavilion, a yacht club, tennis courts, basketball courts and a jogging and bike path.

Signs around the first phase of the development stake out the sites for churches, retail centers, a resort hotel, hospital, office buildings and a police station.

The magnitude of the development is staggering to many observers.

"It's a gargantuan task," said Charles Hickcox, president of the Feldman-Hickcox Co., a Scottsdale development company.

"The task of doing a project like that is monumental. It's not for the fainthearted," he said.

"It's hard even to put into perspective how big that thing is, how much money has been spent to just put those big lakes in."

Only a few custom houses have been built in the development, which is getting off the ground after years of preparation.

The reorganization filing by American Continental probably could not have come at a worse time for the two major companies that just began selling still unbuilt homes at Estrella.

But both companies express optimism about the development's long-term future.

"Nothing compares to it. You have to see it to appreciate it," said Mike Pernas, a sales representative for UDC Homes.

UDC Homes just began construction of three of its six planned model houses at Estrella. The company plans to build 171 houses in the first phase of Estrella, and 275 in the second phase.

Continental Homes, which at one time was part of American Continental, began selling houses for its 165 lots in the development just three weeks ago.

The company has several buyers lined up, but it won't sell any houses until it receives assurances that an American Continental subsidiary will oversee the area's fledgling homeowners association, said Tom Hickcox, vice president of sales and marketing for Continental.

The association takes care of the lakes, grass and other public areas that are an essential part of Estrella's appeal.

In anticipation of families moving into the community, an elementary school is under construction. It is to open in the fall.

Lincoln has been the engine

Lincoln Savings and Loan Association of Irvine, Calif., which was acquired by American Continental in 1984, is the engine that has driven the project.

Federal banking regulators seized Lincoln on Friday. Among other things, they had expressed deep concern Lincoln's indirectly investing about a billion dollars in raw land, some of it in Estrella.

A pair of knowledgeable observers think that, despite the filing for protection under Chapter 11 and seizure of Lincoln, Estrella will move forward because so much has already been spent on the project.

"My sense is that the template pretty much exists at this point," said Jim Chalmers, president of Mountain West Research in Phoenix.

"There's still a lot of execution that will be necessary on later phases, but as a practical matter someone's going to have to follow through. The outline is right there. I wouldn't see it changing that much."

Neil Irwin, president of Territorial Development Co. of Phoenix, shares that view.

"I don't see how you can change your approach much in midstream because they're as far along as they are," Irwin said.

"I'm not sure there's a lot of choice but to go ahead with a very aggressive marketing of that."

The alternatives would include cutting it into parcels for sale to smaller buyers, which American Continental was doing anyway, he said.

Irwin also said it is not unusual for a big development, particularly one of the scope of Estrella, to go through several owners.

But the specter of so much land being dumped on the market has some Valley developers and lenders shaking.

"This could hasten the bursting of the speculative bubble that has existed here," said Terry Gilbert, a certified public accountant with Kenneth Leventhal and Co., which specializes in real estate.

"Anytime you have a 30 to 40 percent decline in the value (of land), you have a problem."

Gilbert suggested, however, that the Valley economy "is going to perk along at some rate. The number of jobs that come to Arizona shouldn't necessarily be adversely affected by this."

A bankruptcy expert said any liquidation of Estrella land would be handled in an orderly fashion and over a lengthy period of time.

"You just can't go out and fire sale everything," said Dawn Stoll Zeitlin, head of the bankruptcy department at Gust, Rosenfeld & Henderson in Phoenix.

"I don't think the Bankruptcy Court would permit it."

But any sale of that much land, particularly in a depressed market, will have an effect," she said. "It's got to."

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Keating lawsuit hits regulators

By Russ Hemphill and Leslie Irwin
The Phoenix Gazette

American Continental Corp., wasting no time to launch a promised legal counterattack, filed a $150 million lawsuit today charging federal regulators with trying to wreck its main subsidiary, Lincoln Savings and Loan.

The lawsuit was filed at 11:25 this morning, just after American Continental chairman Charles H. Keating Jr. addressed a press conference at which he blamed federal regulators for his company filing for protection under Chapter 11 of the U.S. Bankruptcy Code. The company filed Chapter 11 Thursday.

The lawsuit comes three days after Lincoln Savings and Loan Association of Irvine, Calif., was seized by bfederal regulators. The thrift's 29 branches remain open under management of the Federal Deposit Insurance Corp.

The lawsuit asks U.S. District Judge Charles Hardy to award American Continental $50 million in damages and $100 million in punitive damages.

It charges federal regulators with breach of contract, illegal disclosure of confidential information, interference with business relationships, negligence and violation of regulations intended to assure fairness.

See ■ Lawsuit, A-4

■ Lawsuit

The lawsuit claimed the thrift's financial woes grew out of a rift between Keating and federal bank board officials who were on opposite sides of a debate over the regulation of the savings and loan industry.

Because of the clashes, the lawsuit alleged, bank board official in Washington D.C. and San Francisco have an "enmity and bias against Lincoln."

Reacting to the suit, Bank Board member Lawrence White said he expects regulators will speedily win any court action concerning American Continental.

"We will defend ourselves in court, and I'm quite sure we will be victorious," White said. "I find this lawsuit totally without basis.

"American Continental has a history of disagreeing with its regulators, and this indicates the problems lie with the company and not those charged with overseeing its behavior," White said.

American Continental, "has a problem with San Francisco, has a problem with the state of California, then they have problems with Washington. Everybody is out of step with ACC and you begin to think, maybe the problem is in the other direction."

The lawsuit says regulators "have embarked on a course of wrongful conduct designed to punish Lincoln, FLFC and ACC by destroying the business and property interests of plaintiffs."

The suit cites "repeated disclosures of highly confidential information concerning Lincoln by the bank (board) and bank (board) personnel constitute illegal retaliatory action against plaintiffs legitimate exercise of free speech — their lobbying, public statements and litigation."

The lawsuit said published reports based on "internal documents" and interviews with regulators resulted in "substantial deposit withdrawals and concomitant liquidity concerns," resignations of key officers and employees of Lincoln.

The suit also accuses regulators of intending "to destroy Lincoln's business in retaliation for Lincoln's opposition to limitations on the types of investments in which savings and loan associations may engage."

Named in the lawsuit were the Federal Home Loan Bank Board, Federal Savings and ~~Loan~~ Insurance Corp., the Home Loan

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Bank Board of San Francisco and Lincoln Savings and Loan Association.

The lawsuit was filed by American Continental Corp. and First Lincoln Financial Corp. on behalf of Lincoln Savings and Loan Association.

The lawsuit said senior bank board officials violated a written contract with Lincoln that resulted in Lincoln not refiling a lawsuit against the bank board and not suing the San Francisco-based bank board.

Lincoln sued the bank board in 1987 to stop leaks it claimed were hurting its business.

Board officials in Washington, D.C., and San Francisco "repeatedly and deliberately disclosed to the press highly confidential information about Lincoln obtained pursuant to the Bank's examinations of Lincoln. These leaks were part of the pattern of bad-faith misconduct by the FHLBB and FHLB-SF directed at Lincoln," the lawsuit said.

The lawsuit resulted in meetings between the two sides, the lawsuit said, and federal officials agreed to stop the leaks.

After more negotiations, a memorandum of understanding was reached between American Continental officials and federal regulators where regulators again promised to stop the leaks, not to "rehash" findings of a 1986 examination of Lincoln and quickly conduct another examination of Lincoln.

Today's lawsuit charges that federal regulators broke all three legs of the agreement, jeopardizing $10 million invested in Lincoln by American Continental.

"The bank board's violations of the memorandum of understanding and its failure to deal honestly and in good faith culminated in the institution of the conservatorship on April 14, 1989," the lawsuit said.

Keating's clash with regulators over Lincoln has been widely reported. The FHLBB has spent more than two years examining the thrift, with regulators in May deciding to shift jurisdiction of the thrift to Washington, D.C. from San Francisco.

A subsequent examination in Washington turned up some of the same questions California regulators had raised about the thrifts operations.

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Government blamed for troubles

By Leslie Irwin
The Phoenix Gazette

Charles H. Keating Jr. stood this morning before a room packed with loyal employees of American Continental Corp. and members of the press and laid the blame for his company's troubles squarely at the feet of the federal government.

Soon after he spoke, a lawsuit was filed by his company against the federal government.

"I am outraged at the treatment by regulators" of Lincoln Savings and Loan Association, Keating said.

He had called a press conference at 10 a.m. at the Arizona Biltmore to explain the decisions that led to American Continental's filing Thursday for protection under Chapter 11 of the U.S. Bankruptcy Code.

"Let me assure you that I do not stand here as chairman of the board of a company that is, as

See ■ Keating, A-4

■ Keating

From A-1

some have implied, on the brink of collapse. This is not a company gone begging or asking for a government bailout. This is not an Eastern Airlines or Chrysler," Keating said.

Flanked by his wife, Mary Elaine, and other family members and employees, an angry Keating said he would take "all action open to him" in fighting the government for control of his S&L.

He said he would "challenge in court those who would destroy us, and call for a full federal investigation of the abuse of power by one or more regulatory offices."

He said he might be the first to mount such a challenge, noting that others have felt it was futile to oppose the government. "Instead, they virtually acquiesced in their own elimination."

Keating said he would fight to protect the trust his investors have placed in his company.

Those investors, many of them bondholders, are now unsecured creditors who will not receive bond payments and might not get any of their money back now that the company has filed for reorganization.

Commenting on whether campaign contributions he has made to various politicians influenced their decision to go to bat for his thrift, Keating said, "I want to say in the most forceful way I can, I certainly hope so."

He said he did not take the company into bankruptcy lightly, "nor in the deepest sense voluntarily. ... We were driven into the bankruptcy court by a massive and politically timed interference by federal regulators."

He said if regulators would reconsider and allow a sale of the thrift, "American Continental can and will weather any temporary difficulties and continue to play a major role in our nation's economy. I shudder to think of the alternatives."

When Keating took the podium this morning, employees of his company who flanked the back wall, applauded for more than a minute.

Meanwhile, more than $60 million was withdrawn from Lincoln branches on Friday and Saturday, prompting Federal Home Loan Bank Board chairman M. Danny Wall to issue a statement Sunday reminding depositors that their funds are insured.

He also encouraged those who had made withdrawals to return the funds and have any penalties erased.

Wall said some depositors had closed their certificate accounts before maturity and paid the early withdrawal penalty because of confusion about the status of the savings and loan.

"Now that depositors can see Lincoln is continuing to operate as usual under strong new management, we are extending the opportunity for them to reinstate their accounts and have the early withdrawal penalty reversed," he said.

The policy will remain in effect until further notice, Wall added.

Wall said the withdrawals since Friday have not endangered the institution, which has assets of about $5 billion.

The withdrawals are linked to the bankruptcy because many S&L customers also invested in bonds issued by American Continental, Wall said.

Some bonds were sold at Lincoln Savings branches, but the bonds were not insured because they weren't deposits.

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Tom Tingle, *The Phoenix* (

American Continental employees and others pack a press conference this morning where they gave Charles Keating a lengthy ovation.

Tom Tingle, *The Phoenix Gazette*

Charles Keating appears at press conference flanked by his wife, Mary Elaine (right), and an unidentified woman.

FD-350 (Rev. 5-8-81)

(Indicate page, name of newspaper, city and state.)

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Regulators confident of court victory in battle against Keating

By Leslie Irwin
The Phoenix Gazette

A California savings and loan regulator said a lawsuit filed by American Continental Corp. against federal agents is another intimidation effort by the company and predicted it is "the beginning of a battle."

On Monday, the Phoenix-based holding company filed a $150 million lawsuit in U.S. District Court in Phoenix charging federal regulators with breach of contract, illegal disclosure of confidential information, interference with business relationships, negligence and violation of regulations intended to assure fairness.

The suit was filed shortly after American Continental chairman Charles H. Keating Jr. addressed a press conference and promised to use all legal means to defend his company and its main subsidiary, Lincoln Savings and Loan of Irvine, Calif.

American Continental sought protection from creditors Thursday, filing a Chapter 11 (reorganization) bankruptcy

Estrella: What next? D-1

petition in federal court in Phoenix. On Friday, its thrift was seized by federal regulators and remains open under management of the Federal Deposit Insurance Corp.

Monday's lawsuit asks U.S. District Judge Charles Hardy to award American Continental $50 million in damages and $100 million in punitive damages.

Bill Davis, chief deputy commissioner for the California Department of Savings and Loan, said the blame for Lincoln Savings' problems should lie at the feet of American Continental, not federal regulators.

"Regulators did not put any of those high-risk assets on Lincoln's books, so how can they be blamed for the ultimate position that Lincoln is in?" Davis said. "I would say those decisions were probably

See ■ Keating, A-4

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Keating

From A-1

made at the American Continental level."

One member of the three-person Federal Home Loan Bank Board, Lawrence White, said he expects regulators will speedily win any court action concerning American Continental.

"We will defend ourselves in court, and I'm quite sure we will be victorious," White said. "I find this lawsuit totally without basis.

"American Continental has a history of disagreeing with its regulators, and this indicates the problems lie with the company and not those charged with overseeing its behavior," White said.

American Continental "has a problem with San Francisco, has a problem with the state of California, then they have problems with Washington. Everybody is out of step with ACC, and you begin to think maybe the problem is in the other direction."

White added that the decision to seize Lincoln Savings was absolutely necessary.

"Lincoln is deeply insolvent. It has been run in an unsafe and unsound manner. They have dissipated its assets," White said.

David Barr, a spokesman for the Federal Home Loan Bank Board who has been sent to Lincoln headquarters in Phoenix from his Washington, D.C., office, explained that there are three instances in which federal regulators will take a thrift into conservatorship.

Regulators seize a thrift if it is insolvent, has a substantial dissipation of assets or is operating in an unsafe and unsound manner, Barr said.

Lincoln Savings is not insolvent but meets the other two criteria, he said.

At the end of 1988, the S&L had a net worth of $100 million, he said. Its net worth this week is $20 million, regulators said.

"The FHLBB has an obligation to protect deposits as well as the insurance fund," Barr said. "We don't take on personal vendettas against individuals."

The only other savings and loan to be seized by federal regulators for reasons other than insolvency were Gibraltar Savings Beverly Hills, Calif., with assets $13.4 billion and Gibraltar Savings FA in Bellevue, Wash., with assets of $1.4 billion.

Both are owned by Gibraltar Financial Corp. and suffered dissipation of assets and were operating in an unsafe and unsound manner, Barr said.

James Thayer, chairman, president, chairman and chief executive officer of Gibraltar Financial gave a statement through his secretary.

Asked if he was considering legal action like that taken by American Continental, Thayer said: "We are developing a response which we will make public when completed. At the moment we simply do not have a comment to make."

Bert Ely, a thrift analyst based in Alexandria, Va., said Keating's speech at Monday's press conference showed he had a lot of chutzpah.

"This is part of an effort at blustering, putting people off and holding them at bay," Ely said.

"But the physics of finances clearly indicate the whole situation is bankrupt and ultimately will mean major, major losses to shareholders, subordinated debenture holders and FSLIC."

Ely predicts it will take years to sort out exactly who will shoulder the losses.

Named in the lawsuit were the Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corp., the Home Loan Bank Board of San Francisco and Lincoln Savings and Loan Association.

The lawsuit was filed by American Continental Corp. and First Lincoln Financial Corp. on behalf of Lincoln Savings and Loan Association.

It claims that senior bank board officials violated a written contract with Lincoln that resulted in Lincoln not refiling a lawsuit against the bank board and not suing the San Francisco-based bank board.

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Monday's lawsuit charges that federal regulators broke all three legs of the agreement, jeopardizing $10 million invested in Lincoln by American Continental.

The bank board's violations of the memorandum of understanding "and its failure to deal honestly and in good faith culminated in the institution of the conservatorship on April 14, 1989," the lawsuit said.

Before the lawsuit was filed, Keating delivered a 10-page speech at a press conference that had been billed as "further explanation" of the decision leading to the company's bankruptcy filing.

In his speech, Keating blamed his company's woes on the actions of federal regulators. "I am particularly anguished about the fact that a few nameless bureaucrats, who ostensibly are charged with enforcing our laws and regulations, have misused their position of authority and have attacked my leadership of American Continental Corp. and Lincoln Savings and Loan.

"As chairman of this company, I hold very dear the trust that our investors have placed in me ... and I have taken every appropriate action to rectify the unwarranted bureaucratic assault that some malicious bureaucrats in Washington, D.C., have waged against me and my company," Keating said.

Those who purchased bonds in American Continental have become unsecured creditors in the bankruptcy proceedings. No bond payments will be made while the company is reorganizing, and indeed, the bonds could end up being worthless.

Unsecured creditors hold more than $200 million worth of the bonds.

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Keating firm sues over seizure of S&L

Claims 'pattern of harassment' led to takeover

By Ken Western and Lisa Morrell
The Arizona Republic

American Continental Corp. of Phoenix filed a $150 million suit Monday against the federal agencies that seized its savings and loan subsidiary last week.

The suit was filed less than two hours after American Continental's chairman, Charles H Keating Jr., vowed to fight vigorously "those who would destroy us."

Keating made his pledge during a speech to employees, family members and representatives of news organizations at the Arizona Biltmore resort.

The suit, filed in U.S. District Court in Phoenix, accuses federal regulators of acting in a "pattern of harassment and misrepresentation which culminated" in the seizure of Lincoln Savings and Loan Association, based in Irvine, Calif.

Lincoln, with more than $1 billion of its $5.4 billion assets in Arizona, was the principal subsidiary of American Continental before it was put into conservatorship Friday.

RELATED STORIES

MONTINI: Press conference was a setup, **B1**

INSURER PROBED: State looking into Continental Fidelity Life Insurance Co., **C7**

Time and time again, Keating has blamed federal regulators for his problems trying to run Lincoln and then for foiling his attempts to sell the troubled thrift.

Lawrence J. White, a member of the Federal Home Loan Bank Board, reacted sharply to Keating's comments and suit.

"Lincoln Savings and Loan is a deeply insolvent savings and loan on a market-value basis," he said.

In taking control of Lincoln and its 29 branches in southern California, White said, the government acted because the institution was grossly mismanaged, was being operated in an "unsafe and unsound" manner, and its assets were being "dissipated."

"It is the dissipation of assets and mismanagement of the kind that Mr. Keating engaged in that is causing the losses in the huge savings and loan industry," White said.

—See KEATING, page A2

Michael Meister/The Arizona Republic

Charles H Keating Jr. at a press conference at the Arizona Biltmore accuses federal regulators of waging a vendetta against him.

(Mount Clipping in Space Below)

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Keating firm sues over seizure of S&L

—KEATING, *from page A1*

The government seized Lincoln one day after American Continental and 11 subsidiaries filed for protection under Chapter 11 of the Federal Bankruptcy Act, setting the stage for a legal battle over the company's assets.

Total debts of American Continental have been listed at $3 billion.

The suit seeks damages totaling $150 million from the Federal Home Loan Bank of San Francisco for the "wrongful impairment and potential destruction of Lincoln's business" and its value to American Continental.

The bank in San Francisco oversaw Lincoln before its jurisdiction was transferred last May to the Federal Home Loan Bank Board in Washington, D.C., at Keating's insistence.

The suit also asks that the Federal Home Loan Bank Board and its deposit-insurance agency, the Federal Savings and Loan Insurance Corp., be barred from enforcing supervisory directives enacted last December that affect Lincoln.

It also asks that the bank board and the FSLIC stop leaking confidential information about Lincoln to the media in violation of an earlier agreement.

The suit says such leaks are "designed to destroy Lincoln's business, in retaliation for Lincoln's opposition to limitations on the types of investments in which savings and loan associations may engage."

Keating acquired Lincoln in 1984 and rapidly built its assets to $5.4 billion from $2.3 billion. For three years he has battled federal regulators over some of the thrift's unorthodox and speculative investments.

Those battles reached a new level Monday with the filing of the suit and with Keating's attack on regulators contained in a 10-page statement that he read to about 100 people.

About 75 of those attending were American Continental employees and friends. They vigorously applauded the first public comments by the 65-year-old Keating since the seizure of Lincoln.

Keating left immediately after reading his statement, even though the gathering had been billed as a press conference. Press conferences typically are question-and-answer forums. Some newsmen said they had been duped by the company.

A two-page handout of 10 questions and answers prepared by the company was distributed along with copies of Keating's statement.

In his statement, Keating accused federal regulators of waging a vendetta against him and of mounting an "unwarranted bureaucratic assault" against American Continental.

"I am particularly anguished," he said, "about the fact that a few nameless bureaucrats, who are ostensibly charged with enforcing our laws and regulations, have misused their position of authority and have attacked my leadership of American Continental Corp. and Lincoln Savings and Loan."

Keating didn't mention the suit during his speech. However, he hinted that it was coming. He said that Lincoln might "become the first thrift to defend itself to the full extent of our rights ... if need be to challenge in court those who would destroy us, and call for a full federal investigation of the abuse of power by one or more regulatory offices."

Keating defended the financial support he has given several politicians in an effort to gain their support for his fight with federal regulators.

"In the contract between the voter and the politician, we have the right to seek their help when needed and demand it when justified. This I have done," he said, apparently referring to efforts by Sen. Dennis DeConcini, D-Ariz., and Sen. John McCain, R-Ariz., among others, to lobby the bank board to halt an audit of Lincoln in 1987.

White said the FSLIC and the Federal Deposit Insurance Corp. are doing "what is necessary to conserve the assets of Lincoln."

"But that won't be easy," he said. "Even the manner in which they (American Continental Corp.) declared bankruptcy was calculated so as to make it more difficult for the receipt of conservatorship to effectively manage the assets because the subsidiaries were put into bankruptcy as well."

White cast the dissenting vote a year ago when the bank board voted 2-1 to move supervision of Lincoln from federal regulators in San Francisco to Washington, D.C.

Meanwhile, the bank board estimated Monday that depositors withdrew $60 million to $70 million from Lincoln's branches in southern California on Friday and Saturday.

In Phoenix, regulatory officials at Lincoln's offices on Camelback Road have started an examination of records that usually takes two to three weeks, a spokesman for the bank board said. They are working under tight security in the sparse offices where rows of desks sit empty.

A criminal investigation of Lincoln is being conducted by the U.S. Attorney's Office in Los Angeles.

(Mount Clipping in Space Below)

Regulators confident of court victory in battle against Keating

By Leslie Irwin
The Phoenix Gazette

A California savings and loan regulator said a lawsuit filed by American Continental Corp. against federal agents is another intimidation effort by the company and predicted it is "the beginning of a battle."

On Monday, the Phoenix-based holding company filed a $150 million lawsuit in U.S. District Court in Phoenix charging federal regulators with breach of contract, illegal disclosure of confidential information, interference with business relationships, negligence and violation of regulations intended to assure fairness.

The suit was filed shortly after American Continental chairman Charles H Keating Jr. addressed a press conference and promised to use all legal means to defend his company and its main subsidiary, Lincoln Savings and Loan of Irvine, Calif.

American Continental sought protection from creditors Thursday, filing a Chapter 11 (reorganization) bankruptcy

Estrella: What next? D-1

petition in federal court in Phoenix. On Friday, its thrift was seized by federal regulators and remains open under management of the Federal Deposit Insurance Corp.

Monday's lawsuit asks U.S. District [illegible] Charles Hardy to award American Continental $50 million in damages and $100 million in punitive damages.

Bill Davis, chief deputy commissioner for the California Department of Savings and Loan, said the blame for Lincoln Savings' problems should lie at the feet of American Continental, not federal regulators.

"Regulators did not put any of those high-risk assets on Lincoln's books, so how can they be blamed for the ultimate position that Lincoln is in?" Davis said. "I would say those decisions were probably

See Keating, A-4

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Keating

From A-1

e at the American Continental level."

ie member of the three-person Federal Home Loan k Board, Lawrence White, said he expects regulators speedily win any court action concerning American inental.

Ve will defend ourselves in court, and I'm quite sure we be victorious," White said. "I find this lawsuit totally out basis.

merican Continental has a history of disagreeing with egulators, and this indicates the problems lie with the any and not those charged with overseeing its vior," White said.

merican Continental "has a problem with San Fran-), has a problem with the state of California, then they e problems with Washington. Everybody is out of step ACC, and you begin to think maybe the problem is in other direction."

/hite added that the decision to seize Lincoln Savings absolutely necessary.

Lincoln is deeply insolvent. It has been run in an unsafe unsound manner. They have dissipated its assets," ite said.

avid Barr, a spokesman for the Federal Home Loan k Board who has been sent to Lincoln headquarters in enix from his Washington, D.C., office, explained that re are three instances in which federal regulators will e a thrift into conservatorship.

Regulators seize a thrift if it is insolvent, has a stantial dissipation of assets or is operating in an unsafe unsound manner, Barr said.

incoln Savings is not insolvent but meets the other two eria, he said.

At the end of 1988, the S&L had a net worth of $100 lion, he said. Its net worth this week is $20 million, ulators said.

"The FHLBB has an obligation to protect deposits as well the insurance fund," Barr said. "We don't take on rsonal vendettas against individuals."

The only other savings and loan to be seized by federal ulators for reasons other than insolvency were Gibraltar vings Beverly Hills, Calif., with assets $13.4 billion and Gibraltar Savings F.A. in Bellevue, Wash., with assets of $1.4 billion.

Both are owned by Gibraltar Financial Corp. and suffered dissipation of assets and were operating in an unsafe and unsound manner, Barr said.

James Thayer, chairman, president, chairman and chief executive officer of Gibraltar Financial gave a statement through his secretary.

Asked if he was considering legal action like that taken by American Continental, Thayer said: "We are developing a response which we will make public when completed. At the moment we simply do not have a comment to make."

Bert Ely, a thrift analyst based in Alexandria, Va., said Keating's speech at Monday's press conference showed he had a lot of chutzpah.

"This is part of an effort at blustering, putting people off and holding them at bay," Ely said.

"But the physics of finances clearly indicate the whole situation is bankrupt and ultimately will mean major, major losses to shareholders, subordinated debenture holders and FSLIC."

Ely predicts it will take years to sort out exactly who will shoulder the losses.

Named in the lawsuit were the Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corp., the Home Loan Bank Board of San Francisco and Lincoln Savings and Loan Association.

The lawsuit was filed by American Continental Corp. and First Lincoln Financial Corp. on behalf of Lincoln Savings and Loan Association.

It claims that senior bank board officials violated a written contract with Lincoln that resulted in Lincoln not refiling a lawsuit against the bank board and not suing the San Francisco-based bank board.

Lincoln sued the bank board in 1987 to stop leaks it claimed were hurting its business.

Board officials in Washington, D.C., and San Francisco "repeatedly and deliberately disclosed to the press highly confidential information about Lincoln obtained pursuant to the Bank's examinations of Lincoln. These leaks were part of the pattern of bad-faith misconduct by the FHLBB and FHLB-SF directed at Lincoln," the lawsuit states.

The 1987 suit resulted in meetings between the two sides, and federal officials agreed to stop the leaks.

After more negotiations, a memorandum of understanding was reached between American Continental officials and federal regulators where regulators again promised to stop the leaks, not to "rehash" findings of a 1986 examination of Lincoln and quickly conduct another examination of Lincoln.

Monday's lawsuit charges that federal regulators broke all three legs of the agreement, jeopardizing $10 million invested in Lincoln by American Continental.

The bank board's violations of the memorandum of understanding "and its failure to deal honestly and in good faith culminated in the institution of the conservatorship on April 14, 1989," the lawsuit said.

Before the lawsuit was filed, Keating delivered a 10-page speech at a press conference that had been billed as "further explanation" of the decision leading to the company's bankruptcy filing.

In his speech, Keating blamed his company's woes on the actions of federal regulators. "I am particularly anguished about the fact that a few nameless bureaucrats, who ostensibly are charged with enforcing our laws and regulations, have misused their position of authority and have attacked my leadership of American Continental Corp. and Lincoln Savings and Loan.

"As chairman of this company, I hold very dear the trust that our investors have placed in me . . . and I have taken every appropriate action to rectify the unwarranted bureaucratic assault that some malicious bureaucrats in Washington, D.C., have waged against me and my company," Keating said.

Those who purchased bonds in American Continental have become unsecured creditors in the bankruptcy proceedings.

No bond payments will be made while the company is reorganizing, and indeed, the bonds could end up being worthless.

Unsecured creditors hold more than $200 million worth of the bonds.

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For Keating, business is just shrewd politics

All they that take the sword shall perish with the sword.
— Matthew 26: 52

John Kolbe
Gazette columnist

The "press conference" (no questions, thank you) looked for all the world like a political campaign, with the candidate flanked by his very proper wife, fresh-scrubbed grandchildren and adoring friends looking on and cheering sycophantically his triumphant appearance, reporters fidgeting uncomfortably in their supporting roles.

Except that Charlie Keating wasn't a candidate, and he wasn't running for anything.

Not even for cover.

He was fighting back, punching, kicking, scratching, clawing and, of course, suing, in a desperate bid to salvage what's left of his once-dazzling business empire.

American Continental Corp. had just filed for bankruptcy, and here was its chief executive acting every bit like a conquering hero. Albeit an angry hero.

That's the way it is with gamblers. They never admit they're out of the game. Buoyant confidence, born of voracious ego rather than statistical reality, incessantly whispers that just one more deal of the cards will bring the big score and set them free.

Misfortune, you see, is nothing but a run of bad cards.

One character trait that all gamblers seem to share is this inability to accept responsibility for their plight. They never lose because they take a foolish risk, like asking for a hit with 18 showing or going for an inside straight. They just get bad cards.

Keating is a gambler, a swashbuckling entrepreneur who plays not with cards, but with money. Other people's money.

And he also has his own version of bad cards, "those who would destroy us." They're the regulators, the people at the Federal Home Loan Bank Board and its deposit insurance arm who seized Keating's cash cow, Lincoln Savings, last week.

Federal regulators are Charlie Keating's Willard Mecham, the ever-handy scapegoat.

"A few nameless bureaucrats who ostensibly are charged with enforcing our laws and regulations have misused their position of authority and have attacked my leadership," he said. "I have taken every action appropriate to rectify the unwarranted bureaucratic assault that some malicious bureaucrats ... have waged against me and my company."

He was "driven" into bankruptcy court, he charged, by a "massive and politically timed interference" by the regulators.

It wasn't clear why federal officials, already facing losses of about $150 billion, were so eager to add to their woes. Keating, Arizona's highest paid corporate executive, didn't explain.

Conspiracy, it seems, especially one of the sinister federal species, is its own explanation.

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~~But, in a~~ moment of unusually blunt candor tucked into the 10-page diatribe against his tormentors, Keating may have come much closer to a meaningful explanation of American Continental's dilemma, and put the press conference's richly political atmosphere in sharp perspective.

One question that had been raised, he said, was "whether my financial support in any way influenced several political figures to take up my cause. I want to say in the most forceful way I can — *I certainly hope so.*"

There it is, a succinct summary of Keating's philosophy: business is an exercise in shrewd politics.

All through the 1980s, Keating (and his extended family, both filial and corporate) have bankrolled local candidates, including John McCain, Dennis DeConcini, Bob Corbin, Tom Collins and Pete Dunn, at a prodigious rate.

Lest there be any confusion, however, he made it clear this was not charity, nor did it have anything to do with political beliefs (Republicans, Democrats, conservatives and liberals got his largesse). It was a pure business investment, with the dividend to come later, on demand.

He said this "contract between voter and politician," which would seem to be limited to voters with large bankrolls, entitled him to "seek their help when needed, and *demand* it when justified." (Guess who decides justification.)

And he did. Over a year ago, he "demanded" action from McCain, DeConcini and other lawmakers when San Francisco auditors got too persnickety about Lincoln's finances, and in a virtually unprecedented move, got the case switched to Washington. (Unfortunately, auditors there found the same problems.)

It was vintage Keating. With the subtlety of a runaway freight train, he plied and twisted and bullied the political system to suit his economic ends.

But when he had used up his chits, and the years of high-rolling became too transparent in a sinking real estate market for prudent politicians to risk their necks saving him any longer, the system finally turned on him. And now he's bewildered, hurt and angry.

Perhaps he has a right to be. After all, he had paid dearly for the right to receive delicate political treatment.

But there's a basic law of physics, which seems to apply to most human endeavors as well, that for every action there's a reaction. Something about living and dying by swords.

Interestingly, Keating's new public relations spokesman is the son of former Texas Gov. John Connally, another high-roller who went belly-up last year, a victim of plummeting oil prices.

But there is one big difference between the two men. Big John Connally gambled with his own money, not that of depositors or taxpayers, and when the bills came due, he took his lumps like a man, and auctioned off his personal possessions to make good on his debts. There were no recriminations, no heartless banks, no malicious bureaucrats. He won wide respect in the process.

One suspects there'll be no bankruptcy auction at Charlie Keating's house anytime soon.

■ John Kolbe comments on politics for *The Phoenix Gazette*. His column appears Monday, Wednesday and Friday.

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Phoenician builder seeks pay

By Anthony Sommer
The Phoenix Gazette

Charles H Keating Jr.'s troubled financial empire is being threatened again, this time in Maricopa County Superior Court.

McCarthy Western Constructors Inc., general contractor of the Phoenician Golf and Tennis Resort, has asked Superior Court Judge Cecil Patterson to issue an injunction that would freeze an escrow account held by Phoenix Resort Corp., owner of the Phoenician, to pay construction costs.

McCarthy instead received a temporary restraining order freezing the account until the hearing on an injunction could take place.

McCarthy has filed a lawsuit against the company seeking $18.5 million it says it is owed for its work at the resort.

A two-day hearing on the case — scheduled to end late today — has been cloaked in mystery. Patterson agreed to keep secret the name of a Kuwaiti investor in the resort.

The request for the injunction is the opening round in the lawsuit filed by McCarthy in February. The resort opened Oct. 1.

Phoenix Resort responded with a counterclaim charging McCarthy with shoddy workmanship, double-billing and additional work that was not approved on the huge resort at 6900 E. Camelback Road.

Phoenix Resort is a subsidiary of Keating's American Continental Corp., but it is not among the American Continental companies that filed for bankruptcy on Thursday.

Nor is it directly involved in the action by federal regulatory agencies last week placing Keating's southern California-based Lincoln Savings and Loan Association in conservatorship.

Keating on Monday filed a lawsuit in U.S. District Court against federal regulators seeking $150 million in damages.

When McCarthy filed its lawsuit Feb. 16, it asked the court for an order barring Phoenix Resort from allowing the escrow account at Manufacturers Hanover Trust Bank in New York to sink below $18.5 million, the amount McCarthy claims it is owed.

However, the account holds only $9 million to $10 million, according to attor-

See ■ Builder, F-7

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Builder

From F-1

neys for both sides.

McCarthy President Gerald W. Murphy, the leadoff witness, testified his company contracted to build the resort in 1986 and received regular payments until October, when the hotel opened for business.

Since then, Murphy said, the company has not received any payments.

Phoenix Resort attorney Joseph McGarry told Patterson in his opening remarks that he would present witnesses who would testify that it will cost $11 million to correct the deficiencies in McCarthy's work on the hotel.

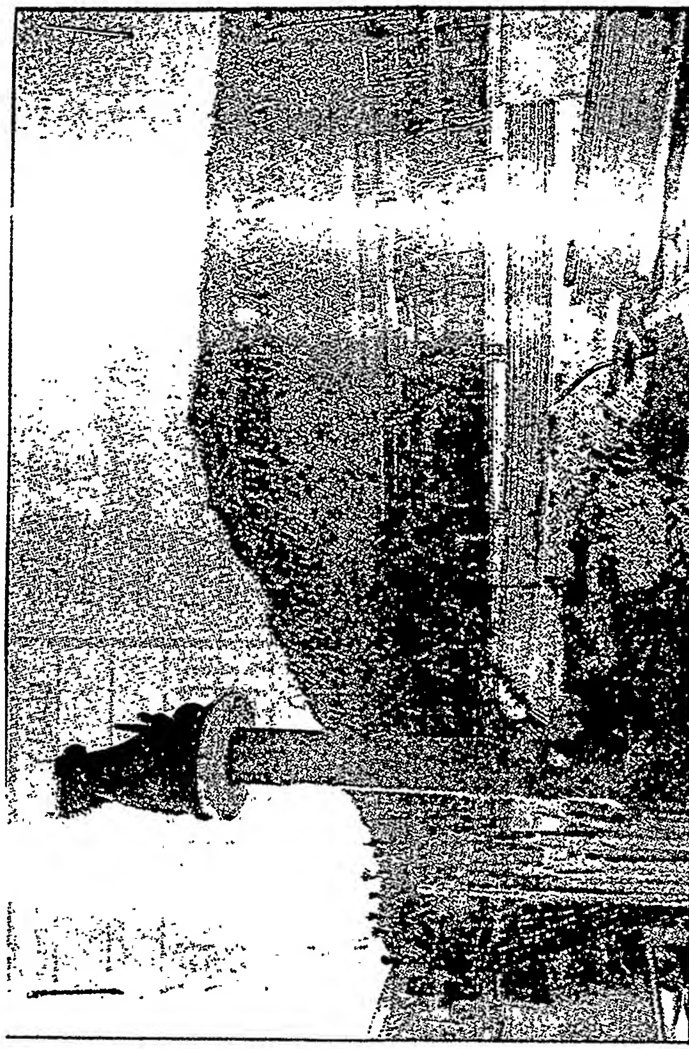
He also said he would provide evidence of almost $6 million worth of unauthorized changes, duplicated billings and rental overcharges by McCarthy.

McGarry said McCarthy is claiming it is owed $152 million, while Phoenix Resort puts the bottom line at $141 million. He said McCarthy has been paid $131 million of the amount due to date.

He also argued there is no need to tie up the escrow account because McCarthy still has the right to exercise a lien against the hotel, which he said is valued at a minimum of $250 million, if it should win the lawsuit.

McGarry said the resort's first season far exceeded projections and there is no reason to believe debts will not be paid.

"It is solvent, solvent, solvent with a capital S," McGarry told the judge.



The Phoenix Gazette

McCarthy Western was general contractor of the Phoenician while construction was under way last year. It is seeking payment for the project in court.

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Payback time

Charles H. Keating is in trouble. His giant American Continental Corp. has filed for Chapter 11 bankruptcy. One subsidiary of American Continental, Lincoln Savings and Loan of Irvine, Calif., has been seized by federal banking regulators. A criminal investigation of Lincoln Savings is being conducted by the U.S. attorney's office in Los Angeles.

Keating announced Monday that he was going to fight to keep his financial empire, fight against "a few nameless bureaucrats, who are ostensibly charged with enforcing our laws and regulations, (who) have misused their position of authority."

Later the same day, Keating's American Continental Corp. filed a $150 million lawsuit against federal banking regulators.

Charles Keating needs a little help from his friends. In his description of just whom he believes some of his friends to be and how he expects their help, the embattled developer has given us unique insight into the notion of democracy according to Keating.

Keating is looking for help from friends who have used his financial help over the years to stay in political office. Among those Keating has financially befriended through campaign contributions by himself, his family, his companies and his employees include U.S. Sens. Dennis DeConcini and John McCain and U.S. Reps. Jon Kyl and Jim Kolbe.

"One question, among the many raised in recent weeks," Keating said Monday, "had to do with whether my financial support in any way influenced several political figures to take up my cause.

"I want to say in the most forceful way I can: I certainly hope so . . . This is how that system we call democracy works. We support and campaign for the political leaders we believe will represent the best of American virtues."

And it's implicit that Keating and American Continental Corp. and Lincoln Savings and Loan are among the best of American virtues.

It would not be the first time that McCain and DeConcini took up the ~~Keating~~ cause. In December 1986, at Keating's behest, the two Arizona senators took part in a meeting with other senators and officials of the Federal Home Loan Bank Board. Though the senators say they didn't ask regulators to call off a San Francisco-based investigation into Lincoln Savings, they did say they demanded of banking officials why the investigation was taking so long.

Regardless of the intent, the effect of that meeting was immediate and clear-cut. In an unprecedented move, the investigation was shifted from San Francisco to Washington, D.C.

Now it's time for Keating-style democracy to go into action again. It's again time for Keating to get his money's worth from the state's elected representatives. It's time once again for DeConcini and McCain to step between Keating and the regulators.

It's time for DeConcini and McCain — and maybe Kyl and Kolbe — to buffer Keating against accusations by federal regulators that "Lincoln Savings had substantially dissipated its assets through violations of regulations and laws, and was operating in an unsafe and unsound condition" when the S&L was seized and that "Lincoln Savings and Loan is a deeply insolvent savings and loan on a market-value basis."

McCain and DeConcini say their previous "help" to Keating was no more than they'd offer to any other constituent and that it did not indicate that they were bought and paid for.

With the financial fortunes of thousands of investors, many of them also constituents, at stake, Arizonans should closely watch their two senators as the Keating debacle develops. We need to see if they are devotees of the Keating democratic philosophy: that we have the best politicians money can buy.

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(Mount Clipping in Space Below)

Insider purchases Lincoln subsidiary

By Dawn Willett
The Phoenix Gazette

A vice president of Insurance West Inc. of Phoenix has purchased the agency, apparently shielding it from the troubles of its parent company, Lincoln Savings and Loan Association.

Ken Kirk, 28, said he bought the [illegible] insurance agency from Irvine, Calif.-based Lincoln on April 10, four days before the thrift was seized by federal regulators.

Lincoln is the main subsidiary of American Continental Corp. of Phoenix, which filed for bankruptcy together with 11 of Lincoln's subsidiaries last Thursday. Lincoln and Insurance West, among other companies, were not included in the Chapter 11 filing.

On Monday, regulators sent a memo to employees of Insurance West and Lincoln's 34 other subsidiaries telling them new management was in place and that "any authority to transact business from prior management of all subsidiaries is hereby revoked."

Kirk said he was not aware of the letter, but added "None of it specifically affects us, and it can't because we're not owned by them."

Since taking over, Kirk said he has assembled his own board of directors, made up of five officers of the company. They include George "Chip" Wischer, former chairman of the agency and now executive vice president; Jeffrey Murray, former president and now vice president; and Terry Boyd, Ted Guy and Robin Couture, all in sales or service management. Kirk holds the title of chairman and president.

See ■ Subsidiary, E-4

■ Subsidiary

From E-1

"The board of directors is in place as adopted by me, basically," he said.

Kirk, who joined Insurance West three years ago, did not disclose a purchase price for the agency. He denied published reports of a $2 million price tag and said he was the sole purchaser.

American Continental spokesman Mark Connally was unavailable for comment.

A management buyout of Insurance West was proposed more than a year ago, led by Wischer. But that proposal fell through. Wischer is the husband of Judy J. Wischer, who is president of American Continental. George Wischer has resigned his position as a vice president of American Continental.

American Continental formed Insurance West in 1980 and transferred ownership to Lincoln in 1984.

The agency, which has offices in Phoenix and Scottsdale, provides property, casualty and life insurance and financial services for individual and commercial accounts. Annual premium volume is $30 million, Kirk said.

The sale did not require approval of the Arizona Department of Insurance because Insurance West is an insurance agency, not an insurance company.

"An insurance company actually is the insurer. They're the ones who maintain the risk and pay the claims," said Gay Ann Williams, executive assistant to the director of the department. "An insurance agency is just an office that has licensed agents on staff who place the business with an insurance company."

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Judge freezes resort account

By Anthony Sommer
The Phoenix Gazette

After hearing testimony that money earmarked for construction of the Phoenician Resort was used to buy $2 million worth of NFL [illegible] to pay $1.4 million worth of lawyers' fees and to buy a $73,000 Porsche sports car, a judge has ordered the remaining funds frozen.

In an order issued after a two-day hearing that ended late Wednesday, Maricopa County Superior Court Judge Cecil Patterson banned Phoenix Resort Corp. from spending any of the $10 million remaining in the construction fund.

The ban will remain in effect until an $18.5 million lawsuit filed by McCarthy Western Constructors against Phoenix Resort is resolved, a process that might take two years or more.

Phoenix Resort is a subsidiary of American Continental Corp., although it is not among the companies headed by Charles H Keating Jr., that filed for bankruptcy last Thursday.

McCarthy, the prime contractor for the resort, filed suit Feb. 16 claiming that American Continental owed $18.5 million in construction costs and had stopped making payments when the resort opened Oct. 1.

Phoenix Resort, the operator of the hotel, filed a counterclaim charging that defects in McCarthy's workmanship would cost $11 million to repair, and another $7 million in bills from McCarthy are being disputed.

But at Wednesday's hearings, Phoenix Resort also admitted to breaching a portion of the contract.

That provision states that if McCarthy filed a claim for unpaid bills, Phoenix Resort was obliged to maintain the balance in the construction fund at at least the level McCarthy was claiming.

McCarthy filed a lien against the hotel in October for $19.4 million — which later was reduced to $18.5 million in the February lawsuit. At the same time, Phoenix Resort allowed the balance in the fund to drop to between $9 million and $10 million.

"It's very clear that when Mc-

See ■ Resort, E-6

56C-181-27

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FBI/DOJ

Resort

From E-1

Carthy raised a claim, that it (the construction fund, which is on deposit with Manufacturers Hanover Trust) should have been frozen at the level of the claim," Patterson said after rereading the contract. "The amount should not be lowered until the dispute is resolved."

During testimony Wednesday, [illegible] Littleton, controller for Phoenix Resort, admitted that more than $1 million was taken from the construction fund to pay former US Football League Outlaws owner Bill Tatham Jr. for tickets to Phoenix Cardinals' games.

Tatham won the tickets in a court fight over priorities to Cardinals tickets. Littleton said the tickets were used to promote the hotel.

Littleton also testified that $1.4 million was disbursed from the construction fund to pay legal fees involving the hotel, all under the heading of "consultant" fees.

And she admitted another $1.1 million had been budgeted from the fund to pay lawyers who were negotiating with a Kuwaiti businesssman who has made an offer to buy 45 percent of the resort.

The money was not spent because McCarthy obtained a temporary restraining order when it filed its lawsuit in February.

Another $73,000 was paid out of the construction fund to Camelback Porsche for "transportation equipment." Littleton admitted the money was used to buy a sports car for an individual identified as John Lee who did "zoning work" for Keating.

And Littleton testified that her salary and those of other Keating employees was reimbursed from the construction fund to Lincoln Savings and Loan Association, the California financial institution owned by American Continental that was placed in conservatorship by federal authorities Friday.

Littleton said that although she served as controller for the construction portion of Phoenix Resort, she is an employee of Crescent Hotel Group Inc., another Keating company that is in bankruptcy, has her offices at American Continental headquarters, and is paid directly by Lincoln Savings.

Also during Wednesday's hearings, McCarthy president Gerald Murphy announced his company had terminated its contract with Phoenix Resort and will not do any more warranty work on the hotel.

Murphy also testified many of the cost overruns on the $148 million project were caused by Keating who fired numerous architects and landscapers and designers (finally hiring his wife to complete the design work) and made 3,000 changes during construction.

A tape recording of a speech Keating made to construction workers last summer admitting he was on the verge of financial trouble was played to the judge. "This is the kind of mausoleum idiots build," Keating said in the speech.

"He ended up building something he couldn't affird and now he wants everyone else to share the cost," said Murphy, who noted $13 million of the $18.5 million he is seeking in his lawsuit actually is owed to subcontractors.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

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Executives told they're out of work

Directors and officers of 35 subsidiaries of Lincoln Savings & Loan Association received a letter from the federal government this week.

It begins: "In accordance with Section 406(c)(1)(B) of the National Housing Act, as amended and pursuant to Federal Home Loan Bank Board Resolution No. 89-1328 . . ."

It goes on to say that, subject to a ruling today in U.S. District Court in Phoenix, the directors and officers of the 35 subsidiaries have been replaced by agents of the federal government.

The Irvine, Calif.-based Lincoln Savings, principal subsidiary of Ame-

— See EXECUTIVES, page F8

Executives told they've lost jobs

— EXECUTIVES, from page F1

ican Continental Corp. of Phoenix, was placed in conservatorship last Friday by the Federal Home Loan Bank Board.

"Pursuant to its powers," the letter says, "the conservator has caused the association or one of its subsidiaries, as stockholder of the corporations listed . . . to take action to remove and replace the incumbent members of each corporation's board of directors as well as the incumbent president or chief executive officer, chief financial officer and secretary of each corporation.

"As a result of such action, you no longer hold any of those positions with any of the corporations."

The letter, delivered to the homes of the officials, gives them 48 hours to return to the conservator any "cars, keys, credit cards, books, records, checks, drafts, documents or other papers in your possession, custody or control."

Officers and directors were also told they can no longer act on behalf of the corporations.

On Thursday, however, federal regulators reappointed some of the executives to their positions.

56C-181-28

APR 28 1989

FBI — PHOENIX

Ruling due on Keating firms

Court asked to bar U.S. seizure; future of empire at stake

By Lisa Morrell
The Arizona Republic

The fate of Charles H Keating Jr.'s financial empire may be decided today when a U.S. District Court judge determines who has control of 11 key subsidiaries of Lincoln Savings and Loan.

American Continental Corp. of Phoenix has asked District Judge Paul Rosenblatt to rule that the federal government "illegally" attempted to take control of the subsidiaries this week.

Keating is chairman of American Continental. Lincoln is American Continental's biggest subsidiary.

American Continental and 11 of its subsidiaries filed Chapter 11 petitions for reorganization in U.S. Bankruptcy Court on April 13. The next day, federal regulatory officials put Lincoln into conservatorship, or under government management. The Federal Deposit Insurance Corp. was appointed to manage Lincoln.

American Continental charges in a suit filed in U.S. District Court on Wednesday that "self-dealing" government officials violated bankruptcy laws when they seized the subsidiaries and began a housecleaning of the companies' top management and directors Monday.

The government's actions to gain control were intended to damage the creditors of the subsidiaries and American Continental, the suit charges.

In a response filed late Thursday evening, the Federal Savings and Loan Insurance Corp. charges that American Continental's request to block government control of the subsidiaries "borders on the frivolous." The response also says American Continental is plotting to prevent the government from taking over Lincoln's assets, which were acquired through money deposited at Lincoln.

The FSLIC insures thrift deposits.

FSLIC attorneys also say that federal law permits them to take over the assets of a thrift and "take any action necessary" to safeguard those assets.

After a hearing this morning, Patterson will determine who has control of the subsidiaries.

His decision could influence the fate of 22,500 American Continental debenture holders owed more than $200 million, and $1 billion in Arizona real estate.

RELATED STORIES

LAWSUIT: Keating accused o[f] hiding firm's financial troubles, F6

ACQUIRE: Buying a securities fir[m] presents a problem, F6

If control of the 11 entities go[es to] federal regulatory officials, the fi[nan]cial-services and real-estate conglom[erate] that Keating has built over the pas[t] years will be severely crippled.

Together, the 11 subsidiaries co[ntrol] $3.4 billion in assets. American Cont[inen]tal, the holding company, claims [...] $454,000 in assets.

American Continental says in [a] lawsuit filed late Wednesday that re[tain]ing its interest in the subsidiari[es is] necessary for the company to reorga[nize]. It also says it had been forced [into] Chapter 11 by regulators' "sens[eless], bureaucratic decisions" not to appro[ve a] sale of its troubled thrift.

FSLIC attorneys contend that ta[king] the subsidiaries out of conservators' control would leave the FSLIC "hold[ing] the bag" for the same depositors' m[oney] that was used to build Lincoln's as[sets]. That would, the filing says, "auth

— See FUTURE, page

APRIL EVENTS

- **APRIL 4:** Class-action suit filed in Los Angeles County Superior Court on behalf of shareholders, debenture holders and other investors in American Continental Corp.
- **APRIL 13:** American Continental Corp. and 11 subsidiaries file in Phoenix for reorganization under Chapter 11 of the U.S. Bankruptcy Code.
- **APRIL 14:** Federal regulators seize control of Lincoln Savings and Loan.
- **MONDAY:** Charles H Keating Jr. lambastes federal regulators in a public speech and files a $150 million lawsuit against them. Federal officials take over 35 subsidiaries of Lincoln and get rid of top management and board members.
- **WEDNESDAY:** Keating files a lawsuit in Phoenix that says federal regulators had no right to take control of 11 subsidiaries. Maricopa County Superior Court judge freezes a $10 million account for work on the Phoenician Resort until American Continental settles a dispute with contractor McCarthy-Western Constructors Inc.

(Mount Clipping in Space Below)

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APR 26 [illegible]

Future of Keating empire hinges on asset ruling today

[illegible]

unscrupulous owners of regulated financial institutions to gain unfettered use of depositors' money."

Federal officials on Monday ousted the presidents or chief executives, chief financial officers, corporate secretaries and directors of 35 Lincoln subsidiaries, including the 11 that are operating under Bankruptcy Court protection. New directors were appointed.

Mark Randall, FDIC managing agent, said that some of the subsidiary managers had been reappointed.

The government's response cites case law that says a court should not interfere with shareholders' rights to elect directors. The government contends it has control of the subsidiaries because they are wholly owned by Lincoln.

"We did what's permissible," said Ira Parker, an FDIC attorney. "We're the white hats. We don't have any animosity toward anybody."

The legal community is fascinated by what attorneys describe as a unique tug-of-war betw[illegible]

[illegible] attorneys puzzled over probable outcomes of today's hearing.

"If an entity is controlled by the FDIC, then the FDIC can tell it what to do and the legal question will be whether the Bankruptcy Court provides any insulation in that situation," said Joseph McDaniel, chairman of the Arizona Bar's bankruptcy section. He speculated that the government would prevail.

But another attorney who specializes in thrift law said he believes that the government-controlled ownership of the subsidiaries does not supersede Bankruptcy Court jurisdiction.

The FDIC has clear-cut control of the subsidiaries not under Bankruptcy Court protection, but not the others, the attorney said.

The decision lies with Judge Rosenblatt, a Prescott native who was nominated to the federal bench in 1984 by then-President Reagan. He served as presiding judge for the Yavapai County Superior Court for 12 years.

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Lawsuit claims Keating hid company's troubles

By Ken Western
The Arizona Republic

Charles H Keating Jr. and other key executives at American Continental Corp. illegally sought to hide the company's financial problems and artificially inflated the value of their [illegible] a suit filed in Los [illegible] accuses American Continental of conspiring to commit securities fraud by issuing false and misleading information.

American Continental filed for Bankruptcy Court protection April 13 in Phoenix, one day before federal regulators seized its principal subsidiary, Lincoln Savings and Loan Association in Irvine, Calif.

The investors' suit was filed nine days earlier in Los Angeles County Superior Court by Greenfield and Chimicles, a Philadelphia law firm with offices in Los Angeles.

The class-action suit was filed on behalf of Sarah B. Shields and seeks to represent all others who acquired the securities of American Continental, including shareholders and debenture-holders, said attorney Kevin Roddy of Greenfield and Chimicles.

About 23,000 investors who bought unsecured debentures of American Continental through Lincoln branch offices have been left wondering whether they are holding $200 million of worthless paper.

Mark Connally, a spokesman for American Continental, said the "company would absolutely disagree with those allegations" made in the suit.

"I'm not aware of any large group (of plaintiffs) other than the individual at this time," he said. "I think he (Roddy) is looking to represent others, but I don't know how successful he has been in that regard."

The suit alleges that Keating, chairman of American Continental, and other top officers illegally inflated their shares and sold some of them back to the company for a profit before disclosure of adverse facts about the company.

Keating, for example, received [illegible] the past two years, the suit says. The sale represented 2.86 percent of his total shares.

It also claims that Charles Keating III, executive vice president of American Continental, received $600,000 for selling 100,000 shares, or 4.23 percent of his total shares.

Robert M. Wurzelbacher Jr., senior vice president, received $625,000 for selling 100,000 shares, the suit says. That represents 5.86 percent of the total shares he held.

The suit accuses American Continental of "phony accounting practices" by overstating income, assets and net worth.

It portrays Lincoln Savings as a company that engaged in an "increasing number of highly speculative and very risky transactions and practices" as a result of a worsening cash-flow problem and losses from operations.

Lincoln was forced "to borrow large and increasing sums from government agencies and the public and to pay premium interest rates to attract private depositors," the suit says.

It further contends that Lincoln failed to properly classify loans as problem loans in order to conceal its financial condition.

It charges that American Continental purchased "large amounts of its own common stock from corporate insiders for no legitimate business purpose."

56C-181-30

APR 28 1989

FBI — PHOENIX

Charles H Keating Jr. / Has challenged a federal takeover of his company's savings and loan and its 35 subsidiaries.

Epic Chapte[illegible] 11 filing a bonanza f[illegible] lawyers

By Jerry Kammer
~~The Arizona Republic~~

With the Phoenix area desper[illegible] seeking new industry, along comes *Charles H Keating Jr. and his Amer[illegible] Continental Corp. to help.*

Keating and the Phoenix company he heads have taken the first steps toward forming a multimillion-dollar cottage industry in the Valley.

This emerging white-collar industry will be composed of dozens of lawyers and law firms, accountants and accounting firms, consultants and consulting fi[illegible], plus assorted printing, secretarial and data-processing services.

All these folks will work long hours

[illegible] ta[illegible] att[illegible] mi[illegible] the [illegible] ah ta[illegible] [illegible]

[illegible]ace hundreds of thousands of [illegible] fight over the [illegible] [illegible]ization of American Continen[illegible] Bankruptcy Court.

[illegible] Continental founded the [illegible] then it retained its bankruptcy [illegible] and agreed to pay them [illegible] in effect setting the standard for [illegible] industry.

Houston law firm hired by Keating [illegible]as received a $1.2 million re[illegible] [illegible] American Continental. Be[illegible] the law firm estimates its total [illegible] representing the company in [illegible] Court will exceed $4 million [illegible] Maley & Kay, which [illegible]s

— See BONANZA, page F6

(Mount Clipping in Space Below)

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APR 28 19[illegible]

FBI DOJ

Bonanza looms for law firms [illegible] filing for Chapter 11

[illegible] known for its work in [illegible], will be assisted by the Phoenix firm of Lewis and Roca, which has received an $800,000 retainer.

Sheinfeld, Maley & Kay is to present its fee structure and anticipated billings at a hearing next Friday before Bankruptcy Judge Sarah Sharer Curley.

"All professional fees in a bankruptcy case are subject to court approval," said Kevin O'Brien, clerk of the court.

In documents filed with the court, Sheinfeld, Maley & Kay says it received a $100,000 retainer last month to consult with financially troubled American Continental.

The firm says that on April 6, when a review of the corporation's financial affairs made it "apparent that a Chapter 11 filing by ACC and certain of its indirect subsidiaries was likely," the law firm received a second retainer payment, of $1.1 million.

It adds that immediately before [illegible] Continental's filing for [illegible] 13, attorney fees of about [illegible] and expenses of $50,000 were charged against the retainers, leaving about $900,000 in the firm's account for American Continental.

In its documents filed with the court, the firm estimates it would charge $3.25 million to represent the 11 subsidiary companies included in the Chapter 11 proceeding.

Susan Freeman, a partner with Lewis and Roca, said her firm's retainer would cover paralegal and secretarial assistance provided to the Houston firm, as. well attorneys' advice on local legal procedures.

Meanwhile, bankruptcy documents also say that Federal Home Life Insurance Co. has asked the court to establish a special account for the unpaid balance on a $9.6 million promissory note owed to American Continental.

The company asks that the court lift a stay on the note that was imposed when American Continental sought reorganization.

Contributing to this article was David Schwartz of *The Arizona Republic*.

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American Continental's ills stall team's purchase plans

By Alan Thurber
The Arizona Republic

"One way or another, we're going to acquire this company," Edward Vallone, vice chairman of Young, Smith & Peacock, said Thursday.

Vallone, chief executive Jed Brunst and other members of Young, Smith & Peacock's management team announced Monday they had reached an agreement to buy Arizona's largest securities firm from its parent firm, American Continental Corp.

The problem facing them is that it they don't know who owns Young, Smith & Peacock. It could be American Continental. It could be one of its subsidiaries.

Or it could be the federal government.

Federal regulators last Friday took over Lincoln Savings and Loan Association of Irvine, Calif., the major subsidiary of American Continental.

The previous day, American Continental filed for bankruptcy protection for itself and 11 subsidiaries. Young, Smith & Peacock was not among those subsidiaries, but a company above it, in a complex series of subsidiaries, was included.

In any event, federal regulators this week assumed control of 35 subsidiaries of Lincoln Savings, including Young, Smith & Peacock. American Continental is challenging that in court.

Brunst said he received a letter from the Federal Deposit Insurance Corporation, conservator of Lincoln Savings, telling him he was no longer chief executive.

But on Thursday, he was reappointed to his post. Mark Randall, managing agent at Lincoln for the FDIC, said Brunst and Colleen Edward, chief financial officer at Young, Smith & Peacock, had been reappointed.

"We have yet to finalize the purchase agreement," Brunst said. "Today's hearing will determine whether American Continental or the FDIC has authority over the subsidiaries.

"If it is American Continental, the purchasing agreement would become effective immediately. If it is not, the process would become more complicated."

Judge Paul Rosenblatt of U.S. District Court in Phoenix is expected to rule on the matter today.

The letters to Brunst, directors and certain other officers of Young, Smith & Peacock appeared to have been the immediate extent of the government's "takeover."

"There are no feds here," Vallone said. "No one walked in. No one has taken over."

Brunst said he had offered to buy the firm from the FDIC, should that agency be the owner.

Randall said the issue had been discussed and said the FDIC would certainly evaluate an offer to buy once the legal issue of ownership had been resolved.

Brunst acknowledged that Young, Smith & Peacock has lost business and brokers since the American Continental and Lincoln problems came to light.

"Initially some clients withdrew their money because they were afraid," he said. "Since the bankruptcy was announced, three brokers have left, really forced to by their clients.

"The loss of business to us is not crippling, but it is significant, in the order of $10 million out of $750 million. And we lost three brokers out of 17 or 18 on the retail side."

Company officers said earlier that accounts at the brokerage are fully insured and that the firm has considerably more capital than the New York Stock Exchange required.

Required capital, they said, could not be withdrawn without approval of the exchange.

56C-181-9

APR 28 1989

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FBI/DOJ

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(Mount Clipping in Space Below)

Moral poseur Keating caught gambling with others' money

I've met Charlie Keating, face-to-face, just once. That was more than enough, thank you, to discover that he is a blowhard. Now, come to find out, he may be a crook to boot.

I was the *Republic*'s religion editor in 1981 when, for some reason, Charlie Keating's anti-pornography crusade was assigned to my beat. Dutifully, I hauled myself out to Camelback Inn for the opening of a three-day smut conference sponsored by the Keating-created Citizens for Decency Through Law.

At the poolside cocktail party before the main soiree, I spotted Charlie Keating across the patio where he was holding court before his unctuous minions, declaiming on the evils of full-frontal nudity.

I introduced myself and, being a polite chap, inquired whether I could ask him a few questions about CDL and his anti-smut activities for the story I was working on. Whereupon, Sir Charlie, knight-errant nemesis of naughtiness, exploded into a thermonuclear attack on "the media" for their utter failure to report the insidious evil of pornography.

At some point in this diatribe I managed, with considerable difficulty, to insert the observation that I worked for the hated "media" and was there precisely to report on whatever point he, Charlie Keating, wanted to get across to the public about smut, smut-peddlers and whatever other assortment of miscreants he might care to assail.

Undaunted, Charlie Keating, flags flying, plunged onward in his hiding of the stupid press, much to the delight of the sniggering sycophants hovering around him like pilot fish snapping up juicy scraps from the shark's jaws. Charlie Keating had a high old time — at my expense, a person he had never met and about whom he knew nothing whatever — and never did answer my questions.

"Sheesh," I thought, as Charlie Keating scolded me for my abysmal ignorance, "what a jerk this guy is." Nevertheless, I wrote a straight story on CDL and tried, successfully I believe, not to let Mr. Keating's boorishness affect the piece.

Charlie Keating is a moral poseur. He rants against pornography and lavishes his bounty on the Catholic Church and sundry charities, but is seemingly oblivious to his own moral vacuity.

Gambling is a vice, but gambling with other people's money is a sin and, quite possibly, a crime.

But that is exactly what Charlie Keating, pillar of morality, did. He played fast and loose with money that belonged, not to him, but to the depositors of Lincoln Savings and Loan.

As Lionel Van Deerlin of the *San Diego Union* found while investigating the Keating S&L operation, when Charlie Keating bought Lincoln in 1984, he assured federal regulators — who had previously suspended him from practicing law before the Securities and Exchange Commission for misuse of bank funds — that the S&L would continue making traditional home mortgages as its primary business and that there would be no change in top management.

Charlie Keating misspoke.

No sooner had he acquired Lincoln than he installed his son as the S&L's chairman — who, incidentally, never graduated from college — at a salary of $800,000 a year. Then Lincoln went out of the home loan business. In 1985, the S&L sold exactly 11 mortgages, four of those to Keating employees.

The company was, in Mr. Van Deerlin's words "given over to high-roller speculation that didn't bother offering competitive rates to prospective home buyers."

Instead, Charlie Keating violated his fiduciary responsibility to Lincoln's investors and shareholders, using the S&L as his private cash cow to buy junk bonds, finance corporate takeovers, play the stock market and to make himself loans on blatantly uneconomical investments.

Consider, for example, the crassly lavish Phoenician resort, a Xanadu-like project that no responsible lending institution would have gone near. Charlie Keating wrote himself a blank check for the hotel using Lincoln's — other people's — money.

The Phoenician has hundreds of mechanic's liens against it; the general contractor, owed millions, has not been paid and, it turns out, Charlie Keating has been tapping an escrow account dedicated to paying off contractors to buy, among other things, blocs of Phoenix Cardinals football tickets and a Porsche for an employee.

As for Charlie Keating himself, while leading American Continental and Lincoln into financial ruin, he has done all right. He paid himself $1.7 million a year, owns palatial estates in Paradise Valley and the Bahamas, and has three private jets at his disposal.

Though why anyone needs more than two private jets is beyond me.

56C-181-32

APR 28 1989

FBI — PHOENIX

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Homeowners feel financial impact of developer's crisis

Maintenance fund down to reserve; fees may double

By EDYTHE JENSEN
News Day staff

Residents of The Islands in Gilbert may be marooned on a mound of unpaid landscaping bills left for them by American Continental Corp.

Their homeowners association has run out of money to pay for landscape maintenance, and residents' annual fees for upkeep of common areas are likely to more than double.

The grim news was delivered to community residents Wednesday night by Phoenix attorney Francis Slavin, who was hired by association directors hours before the meeting to represent the organization in federal Bankruptcy Court proceedings involving American Continental.

With less than $50,000 in a reserve account and $600,000 in annual landscape-maintenance expenses, the association is likely to need an extra $250 to $300 assessment from every resident this year, Slavin said. Current annual association fees are less than $200 per residence, he said. An asessment is an additional fee that sometimes can be collected in a lump payment or divided and added onto regular monthly maintenance fees.

The gathering was the second annual meeting of the association.

American Continental filed for reorganization under Chapter 11 of federal bankruptcy law April 13, and the association meeting changed from a formality to one that attracted a crowd and probing questions from residents.

American Continental developed the 800-acre Islands in 1984, is the lender to some of the project's developers and still controls the association. But it may not be able to continue to pay its share of maintenance costs unless a federal judge orders payment, Slavin told the group of more than 100 gathered in Gilbert High School auditorium.

The homeowners, some irate and calling for the ouster of American Continental officials from their association, were told by Slavin their deed [illegible] of their community until it is 75 percent built out or until 1991, whichever comes first.

Slavin said 1991 is likely to come first because only 830 homes out of a the 4,371 planned are built.

"With this housing market, it may be awhile," Slavin told the group.

East Valley News Day reported last week that property values had plummeted in The Islands, many builders had gone bankrupt and large numbers of bank-owned properties were on the market in the development, which is bounded by Elliot, Warner, McQueen and Cooper roads.

Billed as an upscale planned community built around artificial lakes and bicycle paths, The Islands was the site of a 1986 Street of Dreams display of luxury homes.

One homeowner in the audience mentioned problems with the artificial lakes' water-filtration system. Association manager Randy Ecklund said that American Continental was in the process of replacing those mechanisms but that costs were not calculated in the estimated assessment increase and could mean

— *See* DEVELOPER'S, *page* B

Francis Slavin / Represents The Islands homeowners for $175 an hour.

56C-181-33

APR 28 1989

Developer's crisis affects residents

— DEVELOPER'S, *from page 1*

higher bills for residents.

Ecklund manages the association through the American Continental-owned Desert Garden Management Corp., but Slavin said Ecklund also is an employee of Lincoln Savings and Loan Association, a subsidiary of American Continental that was seized by federal regulators last Friday.

Ecklund assured homeowners that their money was held in a separate account and was not in danger of being commingled with other American Continental funds.

Members of the audience demanded a detailed accounting of expenditures and criticized Ecklund for not giving financial reports to residents during the meeting.

When Slavin told them such an accounting would take time and cost them money, one homeowner said from his seat in the auditorium, "You had to give it to the IRS anyway."

Slavin, who said his fees for representing the Islands Homeowners Association is $175 an hour, told the audience he will ask the Bankruptcy Court to order American Continental to continue paying its part for common-area maintenance.

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U.S. keeps units' reins at Lincoln

Keating denied emergency stay

By Lisa Morrell
The Arizona Republic

The fate of American Continental Corp. remained in limbo Friday as a federal judge awarded federal thrift officials temporary control of 11 subsidiaries of the company's savings and loan association.

In a hearing in U.S. District Court in Phoenix, Judge Paul Rosenblatt ruled that federal officials who seized Lincoln Savings and Loan Association of Irvine, Calif., on April 14 will remain in control of the subsidiaries until he makes a final decision.

The judge's decision prompted both sides to claim success in the struggle for custody of the subsidiaries.

"What a victory for us," said Lenard Parkins, a Houston attorney who represented American Continental.

American Continental Chairman Charles H Keating Jr. sat surrounded by his family in the courtroom throughout the four-hour hearing.

He left the building quickly after the hearing.

Attorneys and officials for the federal government burst out laughing when told that American Continental claimed victory.

"We're in control, which is exactly where we need to be," said Richard Aboussie, an attorney for the Federal Deposit Insurance Corp., Lincoln's managing agent.

Aboussie said he has no doubt that the court will uphold the government's rights as conservator,

— See U.S. REGULATORS, page A17

Gary Ullk/The Arizona Republic

Charles H Keating Jr. and his wife, Mary Elaine, leave the hearing, which an American Continental attorney called "a victory for us."

PROBE: Criminal acts by thrift managers alleged, **F1**

56C-181-34

APR 28 1989

U.S. regulators retain control of Lincoln Savings subsidiaries

U.S. REGULATORS, *from page A1*

or manager, of Lincoln Savings at a May hearing.

At the May 16 hearing, Rosenblatt is expected to determine whether District Court or Bankruptcy Court should decide who will control the subsidiaries and their $3.4 billion in key assets.

Rosenblatt said that if he rules the [illegible] limit presentations on the issue to two or three days.

American Continental and the 11 subsidiaries filed a Chapter 11 petition for reorganization under the U.S. Bankruptcy Code the day before regulators seized the thrift.

Phoenix-based American Continental claims that the assets of the 11 subsidiaries are vital for the firm to reorganize for the benefit of its shareholders, creditors and the communities in which it has large assets, including Arizona. American Continental, a holding company, has $455 million in assets.

In a suit filed Wednesday in U.S. District Court, American Continental claims that the change this week of top management and directors at the subsidiaries by federal officials violated bankruptcy laws. Government officials say their control of Lincoln and its stock in those subsidiaries gave them the right to make the changes.

"It is apparent that we are in a labyrinth of procedural problems as well as substantive issues," Rosenblatt said Friday.

He denied American Continental an emergency stay against the federal control of the subsidiaries, saying that would have amounted to a preliminary injunction.

A "broad disregard of procedural rules" brought the case to this point, he said.

Until the judge's decision in May, American Continental attorney Barbara Houser said, management of the 11 Lincoln subsdiaries will be "in sort of a limbo state." She said American Continental wil work with the government to run the operations.

LINCOLN SAVINGS DEVELOPMENTS

- ✔ The federal government temporarily remains in control of Lincoln's 11 subsidiaries in Chapter 11.
- ✔ Both attorneys for the federal government and American Continental claimed victory.
- ✔ Ultimate control of the subsidiaries may be decided at a May 16 hearing in U.S. District Court.
- ✔ American Continental indicates it needs the subsidiaries' assets to reorganize successfully.
- ✔ The federal government bases its control of the subsidiaries on Lincoln's ownership of the subsidiaries.

But federal officials asserted that they aren't sharing their court-awarded control of the thrift and its subsidiaries.

A letter this week from Mark Randall, FDIC managing agent, deposed most chief executives, chief financial officers and corporate secretaries of 32 subsidiaries of the thrift. Insurance West Inc. of Phoenix was not included in the list, because it was sold to one of its managers just before the bankruptcy filing.

Randall said new executives and directors have been appointed.

While under government control, Lincoln will make changes in the way it handles loans and deposits, Randall said. He would not be specific.

Some changes at the 11 subsidiaries in Chapter 11 would require U.S. Bankruptcy Court approval, he said. That wouldn't be necessary at the remaining 21 subsidiaries.

Employees will continue to receive paychecks, Randall said.

Lincoln's operations are being funded through deposits and borrowed funds.

Rosenblatt ordered the two sides to cooperate over the weekend in drawing up a plan for what is called "discovery," or the finding and swapping of information necessary in preparation for the May hearing.

But cooperation seems a long way off in the face of the animosity between the two sides during the hearing.

The American Continental attorneys argued that the government would liquidate the subsidiaries' holdings. One sign, they said, was that the federal government had stated intentions to ask a Bankruptcy Court judge to dismiss the reorganization of the Lincoln subsidiaries.

Parkins asserted that American Continental is a more fit manager for Lincoln during bankruptcy proceedings. The government, he said, has a record of "failure," "liquidation" and "destruction" in its management of seized assets.

He contrasted the track record of company executives with government officials' history of managing seized assets.

"Theirs is extremely poor, and the track record of creating and building is extremely good on this side of the courtroom," Parkins said.

Federal officials blamed American Continental's management for the financial problems that led to the takeover of Lincoln.

Ira Parker, another FDIC attorney, called American Continental's suit "smoke and mirrors" and asked Rosenblatt during the hearing to "tell them they don't have any rights."

Federal regulatory officials are examining how Lincoln's regulatory capital fell to $20 million at the time it was seized from $112 million in December.

Robert Palmer, a federal attorney, told the court of a $5 million capital contribution that Lincoln made to a subsidiary, Crescent Holdings Inc., one week before the subsidiary filed for Chapter 11 protection on April 13. The money was put up as a retainer for attorneys, Palmer said.

Such transactions "are reflective of the choice you're being asked to make here today," he said.

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(Mount Clipping in Space Below)

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American Continental investors left on limb

By Jean Novotny and Lisa Morrell
The Arizona Republic

Dr. Robert Wynsen feels pretty stupid about the investment he made in American Continental Corp. of Phoenix. He wonders if he'll ever see his $200,000 again.

Norman Janas doesn't feel the least bit foolish about having bought $300,000 in American Continental debentures. He has faith in the "character" of American Continental and is fairly confident he'll get his money.

Richard Thomas is used to flying high with his investments. But he hadn't counted on a crash landing for the $350,000 in American Continental debentures he bought.

The hardware business that Travis and Lynn Williams built over the course of 35 years provided the $50,000 they put into American Continental debentures. Now, "somebody owes us some money."

The Sisters of Charity of Cincinnati may be "sitting tight" on a pile of American Continental debentures — $444,000 worth. The sisters didn't buy the debentures; they apparently were a gift from Charles H Keating Jr., the chairman of American Continental. However, the sisters may miss the income from the bonds.

Unsecured creditors of American Continental are caught in a legal maze that has completely tied up their investments in the company. The proceedings could drag on for years.

The chances of their recouping their investments probably are diminishing with each passing day.

Earlier this month, American Continental filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. A day later, the federal government seized American Continental's principal subsidiary, Lincoln Savings and Loan Association of Irvine, Calif. Lincoln has 29 branches in southern California; at one time, the branches were the principal sales offices for the debentures.

American Continental sold more than $200 million of the debentures, which are bonds backed only by the earning power of the company. When a company stops making money, it cannot pay the interest or principal on the debentures.

The assets that American Continental had used to earn money are the center of a major battle between the company and officials who regulate the savings and loan industry. Both claim their control would benefit creditors, including the debenture holders.

The debentures were attractive investments to many of the 22,500 people who bought them, because of their relatively high interest rates. They were offered at interest rates ranging from 9.75 percent on one-year bonds to 12.50 percent on five-year debentures.

But some unsophisticated investors apparently

— See UNWARY, page C3

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Unwary investors in American Continental bonds out on limb

— **UNWARY,** *from page C1*

did not understand the risk involved.

Robert Wynsen, an ophthalmologist, and his wife, Ann, could possibly lose a good share of the money they had been saving for retirement as a result of the American Continental Chapter 11 filing.

In May, the Wynsens, who live in Villa Park, Calif., took $200,000, part of their proceeds from the sale of some real estate, and bought American Continental debentures paying 10.5 percent interest. They bought them at Lincoln Savings.

'It was a canned speech'

The Wynsens received monthly payments of interest until this month. Under Chapter 11 rules, bondholders cannot receive any payments of principal or interest until a plan of reorganization is worked out.

"They told us it was a great investment, that it was a secure thing," Robert Wynsen said. "They said that American Continental was a great company and really growing and that Lincoln was sound.

"Looking back now, I realize it was a canned speech. But we went home, read the literature and said, 'What the heck?' "

Now Wynsen said he feels very stupid.

"What can I say?" he said. "We did this dumb thing. We didn't investigate it enough. But how does a man know? I didn't want to do anything daring. I wanted to do something conservative, and here I am."

Wynsen said the possible loss of the money is going to hurt, although it won't be devastating to the couple's security.

However, he said he is not going to tell his elderly mother-in-law about the $20,000 he invested for her in American Continental bonds. He said he will reimburse her from his own funds if need be.

He is worried about the legal maze ahead. Years ago, he was involved in a similar matter, and it was seven years before it was resolved.

Hard-luck hardware story

It took Travis and Lynn Williams more than 20 years before their hardware store yielded enough profit to enable them to invest $50,000. They had nurtured their store since it opened in Palmdale, Calif., in 1954.

More than a year ago, the 70-year-old couple invested $60,000 into American Continental debentures.

"We're very careful about the business, and we lose the profits," Lynn Williams lamented last week from her home in Carlsbad, Calif.

In February, $10,000 of the debentures came due. The couple received their money back on that portion of their investment, which was "excellent" because of the relatively high return. But they wonder if they'll ever see the rest of the money.

"We're pretty broken up about the situation, and we're not very knowledgeable about what happens now," Lynn Williams said. "If [illegible] share on the dollar back, I'd be happy."

Her brother-in-law, who recommended the debentures, stands to lose even more. He sank $240,000 into them. Williams said she and her husband won't have to cut their style of living if they lose their money, but her brother-in-law will.

They figured the American Continental instruments were sound investments because they bought the debentures at a Lincoln Savings branch in Escondido, Calif. The interest rate caught their eye as well.

"We were retired, and we had some money that needed to be working, and we really didn't understand the risk," she said.

'Hindsight is wonderful'

State thrift regulators last year stopped American Continental from renting space for its financial representatives in Lincoln offices. The

representatives had been selling the debentures. Regulators worried that unsophisticated investors would mistake the debentures for federally insured instruments.

But Lynn Williams said the representative told the couple that the debentures were not backed by the federal government. She and her husband blame only themselves — and their lack of financial savvy — for their potential loss.

"Looking back on it, we should have realized the higher the interest rate, the higher the risk. Of course, hindsight is wonderful," she said.

Still, she added, "I certainly feel like somebody owes us some money."

The salespeople at the Lincoln Savings and Loan Association branch where Norman W. Janas bought his $300,000 in debentures told him that under no condition would the company default on the bonds.

"Debenture means that it is secured by the character of the organization," said Janas, 65, a retired machinist from Burbank, Calif.

"They should be OK because of the power of the organization.

"Mr. Keating is supposed to be a fine person — the best — and a very good businessman."

Investor is confident

Janas said he has every confidence it will work out and the company can be restructured. Yet, he realizes there is a possibility that it won't work out.

"But I have faith," he said. "It's a powerful company — a Fortune 500 company — so I couldn't picture something like that happening."

American Continental was named in the Fortune 500 list of service companies in June.

Janas, a World War II veteran, receives Social Security benefits, but he said his investments are fairly substantial for "a working person." And Janas said it isn't because he led a frugal life.

"The secret is very simple," he said. "I was single most of my life. It's expensive to be married and have a relationship with someone."

Yet he said a nearly 10-year relationship ~~he had~~ with a Spanish noblewoman was so emotionally satisfying that he was inspired to accumulate the money he did.

"Behind every successful man, there's a woman," he said, "And that had a lot to do with accumulating money for me. It was so satisfactory that I wanted to plunge on and work every day. She was so lovely."

Investment-banker trouble

The money he invested in American Continental came from an annuity he said he was having trouble getting his investment banker to monitor. So he withdrew part of the money from it and invested in bonds last spring.

The bonds, due to mature in 1993, have a 12 percent interest rate, and the monthly interest payments on it were $3,000 a month. Janas said he put the interest payments he received in an account he had in Lincoln Savings. Last week, Janas closed his account at Lincoln Savings and moved his money to another financial institution.

Janas said he has enough money to get along if he loses his investment in American Continental.

"It's bad, but I'll do OK," he said. "I have confidence that everything will be all right."

Some people may think he made a foolish investment, he said, but "whenever you make an investment, there is a risk. If you don't take a risk, there is no gain."

One of the very largest unsecured claims among creditors of American Continental is one for $444,000 by the Sisters of Charity of Cincinnati.

But Jon Valmassoi, the nuns' business manager, said he could not comment on the nature of the claim.

However, it is for the same amount of money that Keating says he donated to the group of Catholic nuns, and it is possible that the gift was in the form of American Continental debentures.

Catholic nuns 'sitting tight'

"Mr. Keating has given a lot to charity," Valmassoi said. "If he has given anything, when, where ~~and how~~ much, I can't say.

"We haven't hired an attorney or anything. Right now, we're just sitting tight."

The Sisters of Charity have 900 members, and they are involved in nursing, teaching and social work.

'Living high on the hog'

Richard Thomas of Arcadia, Calif., describes himself as a bit of a financial daredevil.

"I've lost more money from something new than most people have made in their lives," the 69-year old retiree said.

Even so, he never suspected he might lose his entire $350,000 investment in American Continental debentures.

Thomas doesn't consider himself a sophisticated investor. And he didn't realize he was flying so high with American Continental, despite an initial warning from a stockbroker. The broker recommended he buy bonds with a higher rating but a bit lower interest rate. Thomas ignored the advice.

Instead, he went to an American Continental representative at a Lincoln Savings branch. He read the prospectus describing the company and its offering, but didn't understand the risk. He bought the debentures anyway. The monthly interest began.

"I've been living high on the hog while it's been coming in," he said.

His friends warned him that American Continental was cruising toward danger, imperiling his investment. Then he heard of the Chapter 11 filing.

The money in the bonds represents about a third of his wealth, he said. The possible loss of his investment might cramp his spending, but he's not crying over it.

"Hell, maybe somebody's going to take over that thing, and my money will be worth twice as much," he said.

Meanwhile, he added, "I'd sure like to find out what caused them to go downhill."

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(Mount Clipping in Space Below)

Keating pays attorneys $4.3 million

By Ross Hemphill
The Phoenix Gazette

American Continental Corp. and 11 subsidiaries paid $4.35 million to retain lawyers who will represent the companies in bankruptcy court.

The pricey ante, which foreshadows big legal bills on all sides in the $3 billion Chapter 11 case, was revealed this week in court documents.

U.S. Bankruptcy Judge Sarah Sharer Curley temporarily has appointed the Houston law firm of Sheinfeld, Maley and Kay as lawyers for Charles H Keating Jr.'s companies.

She set an April 28 hearing to decide whether the law firm will be hired permanently.

Keating hired the law firm on March 1, court documents indicated, paying it $100,000 for consulting work on

American Continental bankruptcy: The fallout

financial affairs for American Continental Corp.

On April 6, a week before the companies entered bankruptcy court, American Continental paid the lawyers $1.1 million and its 11 subsidiaries paid a total of $3,250,000, all as retainers.

Documents said that, of the fees paid for American Continental, about $300,000 already has been spent on lawyers' fees and expenses, and another $900,000 remains unspent in a trust account.

The Houston lawyers will be paid up to $310 an hour.

Court documents also revealed some more financial information about the 12 companies, indicating that on Feb. 28 they owed each other about $400 million in unsecured accounts payable.

The single largest unsecured debt owed one Keating company to another is about $99.9 million loaned to Amcor Investments Corp. from Phoenician Financial Corp. There are 20 such loans listed.

Meanwhile, creditors of the Keating empire have begun filing claims in court, trying to protect their interests.

Southmark Corp. of Dallas has asked Sharer Curley for a temporary restraining order to stop Crescent Lending Corp. from foreclosing on stock used as collateral in a 1985

See ■ Attorneys, E-4

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Attorneys

From E-1

loan agreement.

Southmark, which according to court documents borrowed about $28 million from Crescent, claimed a foreclosure sale of the stock of Servico is set for 2 p.m today.

Southmark claimed the value of the stock now exceeds $31 million and that a foreclosure sale would hurt a planned acquisition and merger with FCD Hospitality Inc.

There is an unpaid balance of about $12.48 million on the loan, the application for the restraining order said.

Crescent claimed the loan is in default, but Southmark in court documents said a $6.3 million payment was made Feb. 6 as part of an agreement where Crescent allegedly agreed not to pursue the foreclosure sale.

Also, Federal Home Life Insurance Co., has asked for relief from the automatic stay imposed when the bankruptcy cases were filed to protect the balance owed on a $9.6 million 1988 promissory note secured by rents on McClintock Fountains Shopping Center.

The insurance company asked Curley to order American Continental to keep the rents and income from the center separate from other monies in the bankruptcy case so that it could later collect its money.

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'Sorry, Charlie,' not even 'Angels' can get you off the hook

In the lobby outside the Grand Canyon Room at the Arizona Biltmore, a collection of young, attractive women was gathering.

It was shortly before 10 a.m., when Charles H Keating Jr. was scheduled to hold a "press conference" regarding the Bankruptcy Court reorganization of his American Continental Corp. and the federal seizure of its subsidiary, Lincoln Savings and Loan.

The women chatted among themselves, giggling at reporters who asked, "Why are you here?" One of them finally told me, "We're here for Mr. Keating, and we're not supposed to talk to any of you."

They were Charlie's Angels.

It should have been a clue of what was to come.

Since shortly after 9 a.m., the back rows of the Grand Canyon Room were filled with Keating's family. Gary Hall, the eye doctor and most visible of Keating's son-in-law, sat at the end of a row, his wife and children nearby.

Hall wore what appears to be the uniform required of American Continental's men: dark suit, white or pastel shirt, conservative tie.

Keating's other daughters and sons-in-law also were there. And more children. The boys and girls appeared to have been told to smile (or at least not to squirm or sneer) for the television cameras. Local radio stations were set to broadcast the event live.

It hadn't occurred to any members of the press just yet, but they were about to be had. Keating never planned to hold a "press conference," which normally includes journalists asking questions.

Instead, Keating threw out the hook, baited with the promise of a face-to-face meeting, and the local media swallowed it whole.

After a brief, self-serving slide show

More than half the audience were Angels, employees and family. Charlie's Angels burst into applause when the boss took to the microphone. His family gave him a standing ovation. Only after he was sure that the cheers had gone over the airwaves did Keating begin reading from a prepared statement.

Last year, Keating spent $500,000 to buy radio advertising in which he tried to make himself sound like an average Joe, instead of a filthy-rich Charlie.

This time, the air time cost him only a couple of hundred bucks for the room, plus coffee and sweet rolls. It was a classic con.

To the surprise of no one, Keating blamed his company's troubles on "a few nameless bureaucrats who ... misused their position of authority and have attacked my leadership."

He complained about the "unwarranted bureaucratic assault that some malicious bureaucrats in Washington, D.C., have waged against me and my company," and added, "We were driven into Bankruptcy Court by a massive and politically timed interference by federal regulators."

All of which leads to some questions.

But there were none.

Keating spoke of his love of Arizona, and of his company and of his family. Then he slipped out a side door, into a waiting car, and left. All staged to another rousing cheer by Charlie's Angels.

Reporters in the room stared at one another, dumbfounded. Keating had gotten both the first word *and* the last word. The only thing better would be for the public to now to consider him an underdog battling "the nameless bureaucrats."

Unfortunately for Charlie, there's another nameless group out there: 23,000 people holding American Continental timed" events.

These days, Keating prefers to remind people of his generosity to charities such as Mother Teresa of Calcutta, rather than talk about the 23,000 people he's left holding the bag, some of whom might become charity cases.

Charlie didn't even want to say why he held this "press conference" at the Biltmore, rather than his Phoenician Resort, where he could get a conference room for free. You'd think a person in his position would try to save a little money.

Monday's show wasn't staged to answer questions, however. It was a combination pep rally and pity party. And the pep rally worked. All of Arizona had a chance to catch Keating's performance and hear his Angels cheer.

But pity is best reserved for his investors and creditors, all those little fish he's left on the hook. Keating may have pulled off a classic media con, but even an ill-informed public knows the difference between a tuna and a shark.

In other words, "Sorry, Charlie."

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Empire's woes shake Valley

Keating's deals pumped cash by the millions

By Ken Western
The Arizona Republic

It's not a question that normally comes up, but Conley Wolfswinkel once was asked whom he would pick to row a boat with him if he were stranded in the middle of the ocean.

"I said I'd pick Charles Keating," Wolfswinkel recalled. "Because Charles is resourceful, bright and honest."

That view may not be shared by everyone in metropolitan Phoenix, but many businessmen and developers such as Wolfswinkel say the fall of Keating's American Continental Corp. would be a major loss for the Valley's economy in terms of jobs and the millions of dollars in investments that the company has generated.

Whatever happens to Keating and his empire after his filing for protection under Chapter 11 of the U.S. Bankruptcy Code on Thursday, the 65-year-old businessman will have left his imprint on the Valley for years to come.

"No question the city is different for having Mr. Keating," said Charles Hickcox, president of Feldman-Hickcox, a development company in Scottsdale.

"History will be a better judge than we can be now, but he's had a very positive impact on the development of quality projects," he said. "If anything ever happened to him, I think the city would be at a loss to replace a guy like that."

Keating, who has declined for months to be interviewed, has never been shy about touting the financial impact of American Continental on the Valley.

In a Dec. 26 response to a letter from a Scottsdale resident, Keating estimated that since 1985, his company had:

- Imported about $3.5 billion from sources outside Arizona directly into the state's economy.
- Paid more than $250 million in wages to Arizonans.
- Made loans of about $1.5 billion to individuals and businesses in Arizona while investing $1 billion in Arizona real estate.
- Brought such companies as Rubbermaid to the Valley as part of the Estrella master-planned community development.
- Contributed millions of dollars to charities.

Aside from business, Keating has carved out a reputation as a leading crusader against pornography, including adult magazines, Dial-A-Porn messages and theaters showing X-rated films.

Although generating a slew of mixed publicity, none of this seems to have had much impact on his businesses.

But in a bid to get around what he viewed as a negative press, Keating spent an estimated $500,000 over a 13-week period in 1987 on folksy radio advertising in which he talked about growth, his company's developments and whatever else happened to be on his mind.

Keating came to Phoenix from Cincinnati in the mid-1970s to salvage a struggling American Continental Homes, but he stayed to build it into one of the top 10 home builders in the country before selling it.

Keating has also built expensive shopping centers, and his large-scale developments often have featured lakes or lagoons in an area where rainfall is scant.

He has spent $25 million to $70 million to provide the basic infrastructure for Estrella, a development 30 miles west of Phoenix that is intended to eventually house 200,000 people on 20,000 acres.

But his crowning achievement is The Phoenician Resort in Scottsdale.

The Phoenician, on which Keating has spent about $265 million and is clearly his favorite, is a world-class destination resort that was recently touted on the television show *Lifestyles of the Rich and Famous*.

Whether it all makes sense from a financial standpoint is another question, particularly in view of Keating's Chapter 11 filing.

"There are some things that probably could have been done cheaper," Wol-

— See EMPIRE'S, page H2

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Empire's woes leave Valley shaken

— EMPIRE'S, *from page F1*

swinkel said. "It's a mind-boggling project."

But Keating has never been known to skimp on projects carrying his name.

Keating, whose reputation for paying top salaries is unequalled, also is credited with having brought business people to Phoenix with a financial savvy that even critics describe as rare.

"These guys were light-years ahead of almost everybody in town in terms of sophistication," an observer said.

"Not only do we lose a tremendous amount of capital, but we lose a tremendous amount of brainpower. Phoenix isn't that long on brainpower and sophistication that we can afford to lose it."

Still, those same brains apparently helped get American Continental into some of the problems it now finds itself in.

Keating has invested hundreds of millions of dollars in the Phoenix area through Lincoln Savings and Loan Association of Irvine, Calif., which American Continental acquired in 1984.

"I hate to see that Charlie and Lincoln (which Keating is trying to sell) are not going to be actively doing deals in Arizona," Wolfswinkel said.

"If you had your choice, you'd definitely want those dollars to stay, but they're probably not going to stay. It's not going to be devastating that they're not here, but it damn sure isn't going to be good."

Wolfswinkel has borrowed millions from Lincoln to help support his projects.

Keating has built what generally is considered the most aggressive private economic-development group in the state in an effort to bring new industry to his Estrella development.

American Continental officials reportedly have spent two days a week since early this year trying to sell southern California firms on the value of moving to the Goodyear [illegible]

"They've got this down to about as fine a science as you can get for any one piece of property," said Ben Warren, a senior consultant in economic development at Arizona Public Service Co.

Warren said he gets two or three calls a week from companies rounded up by American Continental that want to have rate comparisons done on power that would be supplied by APS if they relocated to Estrella.

But Keating's business is so complex that few even pretend to understand everything that he does.

"What I understand least, but tend to appreciate most, is that guy's genius for financing," a Phoenix businessman said.

"It may have gone over the edge. That's something I can't judge, but I know he's been able to do things other people have wanted to do."

It all may have been a house of [illegible] businessman suggested, in [illegible] the city and state have [illegible] yet another hit of negative national publicity about record foreclosures and Chapter 11 filings.

But those who know Keating, such as Wolfswinkel, say he should never be counted out.

"The thing I admire most about Charlie is that if he believes in something, whether it's right or wrong, he goes after it 3,000 percent," Wolfswinkel said.

"He doesn't go after it 110 percent. It's 3,000 percent. I have to admire that type of conviction in a person. He's a bulldog."

Spun-off firm strong, growing

Continental Homes Inc. of Scottsdale was sold by American Continental Corp. in May 1985 to a three-person management team for about $55 million.

Less than two years later, Continental Homes successfully completed an initial public offering of 1,380,000 shares of common stock at $11.50 per share, giving the company a strong capital base.

The new management has expanded Continental Homes operations into southern California and Denver.

WHAT THEY'RE SAYING ABOUT AMERICAN CONTINENTAL

—Gene Rice, chairman of MeraBank

"This is a real sad day in Phoenix. He's been a major employer, providing a lot of jobs in the last 10 years. It's got to be a blow to our economy.

"He was a great contributor to charity in our community. He gave a lot of money to St. Vincent de Paul and land to the Little Sisters of the Poor."

—Jack Pfister, Salt River Project general manager

"I believe that any negative financial indicators further erode the confidence that people have in our local economy, and for that reason, it's a very sad thing. And it's also sad because of all the employees and shareholders that are going to be losing jobs. This is going to affect a lot of people."

~~WHAT~~ THEY'RE SAYING ABOUT AMERICAN CONTINENTAL

"When something like this happens, that's a tremendous impact on people's lives, from secretaries to office workers to custodians. It's not just one individual person that suffers when this happens. It's just a terrible tragedy.

"It doesn't help the image at all. Whatever side you're on with American Continental and Charlie Keating, he's a tremendous generator of cash flow into our economy. To just take that away has to have a negative impact."

— Duane Pell, Phoenix city councilman

"Clearly, when one of the major developers in any metropolitan area files for bankruptcy, it probably has some sort of impact on the community image. We'll have to sort that out over time.

"For our part, we'll keep spreading the good news about Phoenix. It's a diversified economy. . . and we'll keep plugging."

— David Jankofsky, director of the Arizona Department of Commerce

"This is not going to be any fatal blow, but it's certainly not good news. On the whole, I think we're seeing the tip of the iceberg and there's probably going to be a bit more financial restructuring ahead of us by others.

"I think there's some more bad news in store for the Arizona economy. This is the year where it all bottoms out, and when you hit bottom there are going to be a lot of sounds like this along the way."

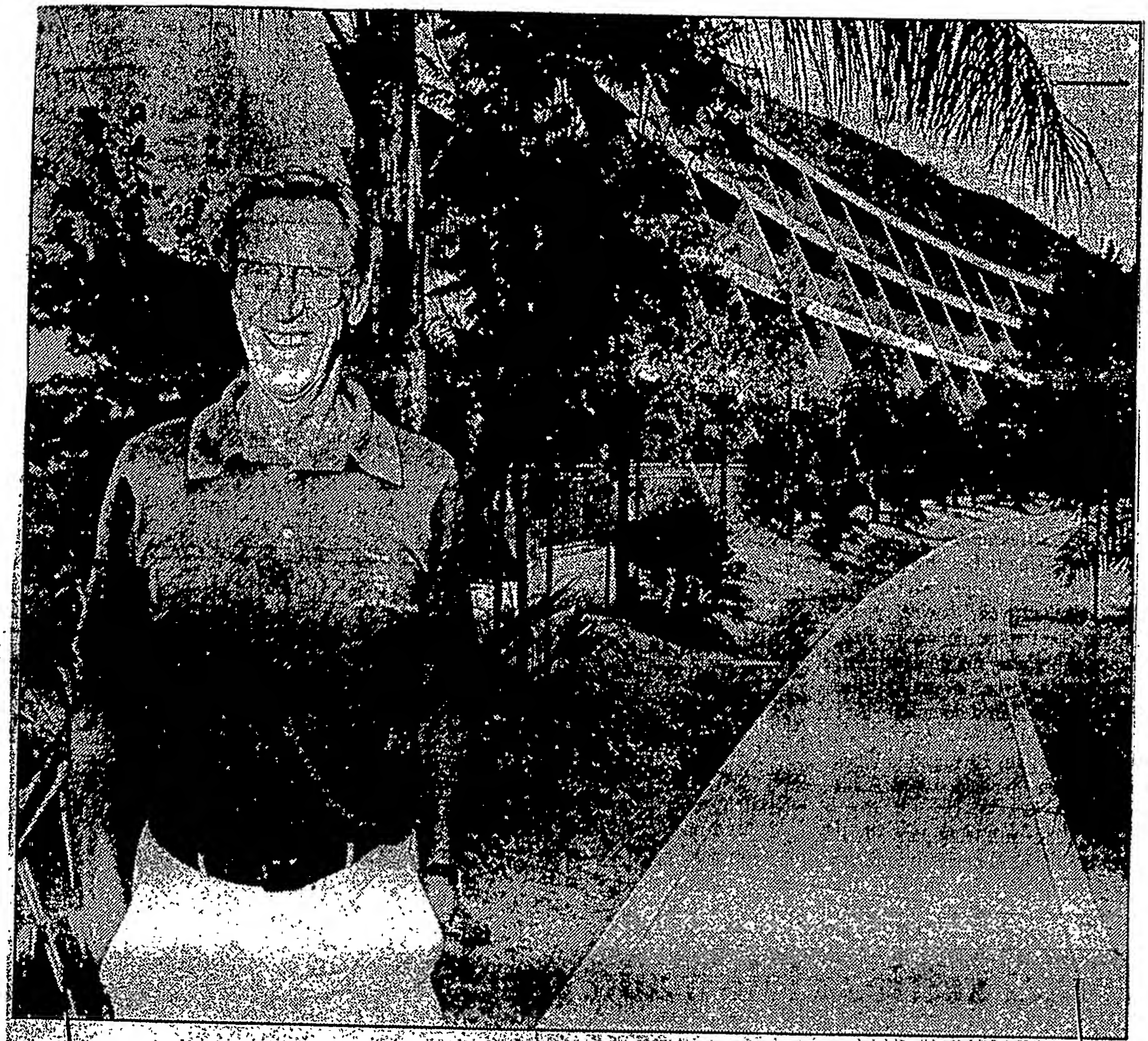
— Lee McPheters, director of Arizona State University's Economic Outlook Center

"This is going to be just another black mark and is definitely going to be bad for the state. It's going to be another sign to people that the economy has softened here and it isn't going to be getting any better for awhile.

"It's going to lower the value of everybody's land. A lot of people are going to be hurt by this. And we already have enough problems.

"This is sad. You hate to see this happen to anyone."

— Karl Eller, chairman of Circle K Corp.



Dave Nelson/The Arizona Republic

A happy Charles H Keating Jr. posed last year outside his favorite holding, the Phoenician Resort, which was then under construction at 6000 E. Camelback Road. The resort is not part of the Chapter 11 filing.

KEATING DEVELOPMENTS

- Rebuilt Continental Homes into a profitable company
- Developed Dobson Ranch residential community, near Dobson and Baseline Roads, Mesa
- Developed The Islands, a master-planned community, Gilbert
- Developed Continental Plaza, a retail center at University Drive and Extension Road, Mesa
- Developed Union Square, a retail center at 43rd Avenue and Union Hills Road, Phoenix
- Built the Phoenician Resort and Crescent Hotel
- Began development of the master-planned Estrella community, Goodyear

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Complex legal dealings could unfold over years

By David Schwartz
The Arizona Republic

American Continental Corp.'s landmark filing for protection under federal bankruptcy law could be just the start of a complex series of legal proceedings that could take years to resolve.

Bankruptcy officials said the company's filing for reorganization under Chapter 11 of the U.S. Bankruptcy Code was basic and left many questions unanswered.

The next 15 days are likely to reveal the heart of the case for the giant Phoenix-based company and 11 subsidiaries.

This is the deadline for company attorneys to identify a list of people, corporations and financial institutions owed money. These groups will be divided in order of priority for repayment.

Included in that next filing will be a detailed outline of each company's financial shape. Sketched out will be such items as property, tax refunds, liens, loans and payments and leases and contracts.

A history of lawsuits against the companies also must be listed in this filing.

American Continental attorneys touched on several of these items in Thursday's original filing but gave few details. Attorneys just listed the 20 major creditors owed money by American Continental.

Following the detailed list will be a creditors meeting before the U.S. Trustee where the jurisdictional questions and a thumbnail sketch of American Continental and the subsidiaries' obligations will be reviewed. This occurs within 20 to 40 days after the original filing.

The vastness of the American Continental case could mean that 12 of these meetings might have to be held.

Long-shot possibilities could include the appointment of a special examiner who would be hired to examine each company's books, officials said.

In addition, it is possible for a trustee to be appointed to preside over the reorganization if it can be shown that company executives were guilty of fraud or mismanagement.

The clock will be running on the company's deadline to file a formal strategy for pulling itself out of financial trouble and regrouping for a new start.

This reorganization plan will include how creditors will be paid off, in what order, and if any assets, such as property, would have to be sold. The company also must provide a plan for liquidation.

A bankruptcy attorney said the theory is that the company must prove to the court that those owed money would be better off if the company reorganized than if it was dissolved.

BANKRUPTCY DEFINITIONS

ASSET: Anything having commercial or exchange value owned by a business, institution or individual.

LIABILITY: A claim on the assets of a company or individual.

CREDITOR: Individuals or companies that have a claim on a company in financial difficulty or bankruptcy.

LIEN: A creditor's claim against property, such as a mortage against a house.

LIQUIDATION: Dismantleing of a business, paying off debts in order of priority and distributing the remaining assets in cash to owners.

Source: Barron's Dictionary of Finance and Investment Terms

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Business 'normal' at Keating firm

By Ken Western
The Arizona Republic

American Continental Corp. said business was normal on Friday despite developments in the past two days that will determine the fate of the Phoenix-based company.

"The attitude is not one of gloom and doom," company spokesman Mark Connally said.

"The mood here is one of, 'We're glad to have a forum in which we can more thoroughly plead our case,'" he said, referring to the company's filing Thursday for protection under Chapter 11 of the Federal Bankruptcy Act.

The company's 3,000 employees had barely learned that American Continental had filed for reorganization before federal regulators announced early Friday that they had seized Lincoln Savings and Loan Association in California.

The action against the 29-branch American Continental subsidiary was taken "on the legal grounds that the institution's assets had been substantially dissipated and that it was operating in an unsafe and unsound condition," the Federal Home Loan Bank Board said.

Lincoln, based in Irvine, Calif., accounts for about 90 percent of American Continental's assets.

David Loveday, a spokesman for the bank board stationed in Irvine, said Lincoln employees generally were "in a very good mood" after the seizure.

"They certainly were not surprised by this action," he said. "They are, right now, being very cooperative and helping us out tremendously."

About 20 federal examiners were reported to be examining records at Lincoln after the seizure.

The Federal Savings and Loan Association stationed insurance specialists at each of Lincoln's 29 branches to answer questions about customer accounts and the placing of Lincoln into conservatorship.

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Economic, human factors behind Keating's fall

The Charles Keating financial-services and real-estate empire is a shambles, the victim of the Val-
ey's real-estate recession, obstinacy, over-
mbition and, to a degree, a failure by
egulators to act expeditiously.

Keating was in character right to the
nd — if we truly have seen the end.

Last week, the Federal Home Loan
Bank Board went to Keating and told
him it intended to take over the savings
and loan association in California his
company owned. The agency demanded
Keating sign a consent agreement.

But there was Keating on Thursday
elling the bank board, in so many words,
o stuff their consent agreement.

And as in nearly every previous
confrontation with regulators, whether
tate or federal, Keating defended his
position by attacking. He accused the
egulators of making presentations that
were not correct when demanding he sign
he consent agreement.

Signing that agreement would have resulted in the Federal Savings and Loan Insurance Corp.'s taking control of Lincoln Savings and Loan Association and all its subsidiaries.

It would have meant, for all intents and purposes, the end of the financial services and investment empire that Keating has nurtured since arriving in Arizona in 1976 from Cincinnati.

That's not the sort of thing Keating would be expected to stand still for. He has never taken kindly to regulators telling him how to run his business. So he filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. His filing included several subsidiaries of Lincoln Savings, meaning he was trying to claim those assets for American Continental.

This time, however, the bank board had had enough. It wasn't going to take "no" for an answer. And bright and early Friday morning, the bank board unhesitatingly put Lincoln Savings into conservatorship. It also was threatening to find a way to take control of the Crescent Hotel and The Phoenician Resort, which in recent months has emerged as something of Keating's pet possession. One he has indicated he would try to keep at all costs.

However, it is Lincoln Savings that has been key to Keating's empire and the main financing conduit through which Keating has fueled the growth of his American Continental Corp.

And therein lies one of the real tragedies of the situation. American Continental, through Lincoln, imported hundreds of millions of dollars into Arizona for its own investment purposes and to lend to others who were investing here. It was a blessing, albeit a mixed one, in a state where access to investment capital is extremely limited.

The flip side of the coin was that the availability of financing appears to have encouraged some investors to become speculators, buying properties that couldn't sustain their value in a falling market. And many of those investments probably have found their way back to Lincoln as "real estate owned."

It's a little scary to consider, but there is a possibility that the FSLIC, which will operate Lincoln as conservator, will decide the best thing to do with all that property is sell it as quickly as possible.

A spokesman for the bank board said Friday that the FSLIC will give all options careful consideration. Let's hope that is not as ominous as it sounds.

There's also the consideration of human capital, without which all the investment capital in the world is worthless. A lot of bright, talented people are now or likely soon will be out of work — at a time when the job market in Phoenix is tight. They represent another resource this state can ill afford to lose.

It may be too soon to count Keating out, but it appears likely that he may finally have been brought down by his own ambition and refusal to compromise.

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Chapter 11 is a strategic refuge

By Jean Novotny
and Ken Western
The Arizona Republic

Charles Keating thinks he can live to do another deal.

The Chapter 11 filing by his American Continental Corp. has served notice that Keating is determined to salvage as much of his Phoenix-based company as possible. Keating is chairman and chief executive of American Continental.

"It is just extremely doubtful at this point that they're throwing in the towel," said Dawn Stoll Zeitlin, who heads the bankruptcy department at the Phoenix law firm of Gust, Rosenfeld and Henderson. Neither she nor her firm was involved in the Chapter 11 filing by American Continental.

With the filing, the company has sought to shelter not only its assets from creditors while it attempts to reorganize, but also to shelter assets whose ownership will be disputed by others, notably the federal government.

In addition, by filing for court protection, American Continental has taken its long-running dispute with federal regulators over Lincoln Savings and Loan Association of Irvine, Calif., into what may prove a favorable forum.

The intent of Chapter 11 is to give a company an opportunity to reorganize and come up with a plan for satisfying creditors. Under Chapter 11, a company seeks court protection from threats of lawsuits by creditors while it reorganizes.

"It should let American Continental breathe for awhile," Zeitlin said.

"It says, 'Let them see what they can do. Let's give them another chance.'

"It says, 'Everyone: Back off. You're not going to collect anything. You're not going to sue. You're not going to foreclose until American Continental gets a decent shot a trying to reorganize.'"

Keating remains in charge of the company, but management is subject to oversight by the court, according to Terry Gilbert, a certified public accountant with Kenneth Leventhal and Co., a national CPA firm specializing in real estate.

American Continental's management could be replaced by the court, "but that doesn't happen very often in cases of this size," he said.

"That's because usually the company's assets can be maximized by people who know where the key to the washroom is.

"By bringing in a bunch of strangers, who may not know specific assets or the business, you could have disastrous results. Typically, you get a trustee in there if it's judged that management is dishonest or grossly incompetent. That's pretty hard to prove."

American Continental has 120 days to file a plan for reorganization. If the company does not do so, creditors may draw up their own plan for guiding the company or perhaps liquidating it.

—See CHAPTER 11, page F2

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Chapter 11 is a refuge for firm

— CHAPTER 11, *from page F1*

Keating, who earned $2 million in 1987, also could see his salary scaled down when the court reviews the company's operations.

The case is expected to be a bonanza for lawyers and accountants, among others.

"The legal business is not a business that will be suffering as a result of this," Gilbert said.

"Certainly, there will be a lot of people employed that were not yesterday."

On Friday, a day after American Continental filed its Chapter 11 petition, the federal government seized its major asset, Lincoln Savings & Loan Association of Irvine, Calif.

Lincoln, by virtue of being a federally insured institution, could not file for bankruptcy.

Subsidiaries of Lincoln, however, were included by American Continental in the Chapter 11 filing, although some, such as the holding company for the Phoenician Resort and the Crescent Hotel, did not seek protection.

The Federal Home Loan Bank Board, in taking control of Lincoln, assumed a stock-ownership role in Lincoln's subsidiaries, but it was not able to take control of the subsidiaries themselves because they were included in the Chapter 11 filing.

The federal government, Zeitlin said, has become a major player in the bankruptcy case, but will play the role as an owner, not a creditor.

That action will pit the regulators against American Continental in a fight over who owns and controls those subsidiaries.

Zeitlin said there is no indication that American Continental has any plans to liquidate, which is an option under Chapter 11.

The company's filing for protection is the largest such case in Arizona history. Its debts total almost $3 billion, and it has more than 25,000 creditors. It claimed assets of [illegible] billion in the petition.

Meanwhile, staff at Bankruptcy Court started processing the massive case early Friday.

Court officials will use the opportunity to start an electronic filing system for case documents. Tentative plans call for the attorneys involved to have access to the computer files from their offices.

A special telephone line offering a daily update will be set up early next week, according to Court Clerk Kevin O'Brien. Extra staff may be hired, he said.

Copying work has been contracted out to a private company, which has told court administrators it will have workers available round-the-clock.

The scene at the court was hectic Friday, as workers handled numerous telephone calls and media requests to examine Thursday's filing.

"Hey, this is bigger than Eastern," one worker said, alluding to a recent bankruptcy filing by Eastern Airlines. "We're in the big leagues now."

David Schwartz of *The Arizona Republic* contributed to this story.

AMERICAN CONTINENTAL HOLDINGS

Affected by Chapter 11 filing	Assets	Liabilities
American Continental Corp.	$454,712,642	$358,887,870
AMCOR Funding Corp.	$935,613,000	$820,766,000
Formerly known as Lincoln American Financial Insurance Co. Involves the Phoenician Funding Corp., Continental Fidelity Life Insurance Co., American Founders Life Insurance Co. and AMCOR Insurance Group.		
AMCOR Investment Corp.	$626,634,000	$532,073,000
Formerly known as Continental Homes Corp. Involves Estrella Star Real Estate Corp., Uplands Co., Uplands Waste Water Co., AMCOR Continental Inc. and Rancho Estate Realty Co.		
Castle Meadows Inc.	$136,105,000	$10,014,000
Crescent Hotel Group	$120,589,000	$3,759,000
Crescent Lending Corp.	$155,128,000	$78,098,000
Cresfin Corp.	$63,140,000	$1,493,000
Linfin Corp.	$724,424,000	$605,121,000
Phoenician Commercial Prop. Inc.	$283,586,000	$278,482,000
Involves Tammany Highland Inc., American Northland Inc., Crescent Hotel Group and Phoenician Continental Corp.		
Phoenician Financial Corp.	$287,067,000	$219,417,000
Provident Mortgage Corp.	$36,223,000	$32,546,000
SSFLC	$24,756,000	$27,377,000
Involves YSP Holdings and Young, Smith and Peacock Inc.		

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'Heavy-duty' case goes to newest jurist

By Alan Thurber
The Arizona Republic

She is bright, tough and always well-prepared. And she'll need all three traits as judge in the American Continental Corp. reorganization.

Judge Sarah Sharer Curley of U.S. Bankruptcy Court was assigned the American Continental Chapter 11 reorganization case, the largest in Arizona history, entirely by chance. Her name came up in a random drawing.

She is the newest of the court's four judges, appointed to a 14-year term Oct. 1, 1986. Her appointment came as a surprise to some, for she was new to the state, had not practiced here and had never been a judge.

"As a result," said one Phoenix attorney, "her relationship with the Bar has been somewhat uncomfortable."

She had good credentials, however, and had practiced bankruptcy law in New York and Wisconsin.

Attorneys have good and bad things to say about her. One called her the best judge in Bankruptcy Court.

"She's never been unprepared," said John J. Dawson, of Streich, Lang, Weeks & Cardon, Phoenix. "She reads every word of the material presented to her, and that will be important in a case like American Continental. That will be a heavy-duty matter."

On the other hand, said a former Phoenix attorney, "she can be erratic, irascible, and doesn't always show good judicial temperament in the form of courtesy, patience and the appearance of impartiality."

"She has a reputation of being very difficult to deal with," said another lawyer, "even unreasonable."

Several bankruptcy attorneys in town were reluctant to speak freely about a judge they would have to appear before in the future.

But all of the attorneys agreed that she comes to the bench prepared.

Curley, 39, was born in Oak Park, Ill., a suburb of Chicago. She went to Mount Holyoke College in Massachusetts and graduated cum laude from New York Law School in 1977.

She did bankruptcy work for a New York law firm, then became an assistant counsel for First Wisconsin Bank Corp. (now Firstar), the largest bank holding firm with headquarters in that state.

"She was a top-notch bankruptcy lawyer," said William Schulz, deputy counsel of the firm.

"She's very bright, hard-working and ~~loyal, and~~ her integrity is ~~beyond~~ reproach. She's a tough lawyer, and I mean that as a compliment."

Curley moved to Arizona in late 1985 when her husband, attorney Roger Curley, joined First Interstate Bank of Arizona as vice president and counsel in the trust division.

One attorney said she had a "very pleasant demeanor, except on the bench."

"No one will bully Judge Curley," said Dawn Stoll Zeitlin, an attorney with Gust, Rosenfeld & Henderson, Phoenix.

"She will rule with an iron hand and is not afraid to make an unpopular decision."

One side's unpopular decision is the other side's victory, but Curley has made

— See JUDGE, page F2

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Judge given 'heavy' case

— JUDGE / from page F1

some tough ones.

In February, she ruled that a New York securities firm could sell between $80 million and $100 million of the stock it held as collateral on loans to Residential Resources Inc. of Scottsdale.

That case, considered the largest in the state until now, is in the process of being settled, attorneys said, which will allow Curley time to take the American Continental case.

"This one will put a strain on anybody's calendar," said Edward Davis, an attorney with Davis & Lowe in Phoenix. "With a big case, there's usually a tremendous flurry of activity for the first few months."

"It's going to be a challenge to her," said another attorney. "It's not a case for a lot of snap judgments. She'll have to keep control."

Said Dawn Zeitlin, "She'll do whatever it takes to get the job done."

Charles Krejcsi/The Arizona Republic

Boxes partially block the entrance to an office at American Continental Corp. on Camelback Road. Employees removed a number of boxes filled with unknown contents from the offices Friday.

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(Mount Clipping in Space Below)

Lawmakers deny role in U.S. seizure

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Members of Congress denied that their intervention with federal regulators contributed to the conditions that led to Friday's seizure of Lincoln Savings and Loan Association.

One congressman was dismayed that federal examiners had not been looking closely enough at the operation run by Charles H. Keating Jr.

"I think there were some people who were saying for a long time that this was coming and were urging the examiners to take a harder look at Lincoln thrift," said Rep. Jim Kolbe, R-Ariz.

"Here was a thrift that was flying high and that regulators needed to take a look at, but there was political pressure applied, and these are the results we have."

Kolbe received $12,000 in campaign contributions from Keating associates when he was a member of the House Banking Committee. He said Keating had complained regularly about federal regulators.

"He was constantly expressing it. He did come into the office and he said he was being harassed," Kolbe said. "If anything, we should have [illegible] they regulate them more strictly, and it's certainly not

See LAWMAKERS, page A9

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Lawmakers deny seizure role

—LAWMAKERS, *from page A1*

limited to Keating."

But Kolbe also said he did not believe any politician had acted improperly in an April 1987 meeting between senators and examiners that was prompted by Keating's complaints.

Keating and his associates have contributed hundreds of thousands of dollars to politicians whom he later asked for help in dealing with federal regulators.

But they have steadfastly denied any impropriety and continued to deny it Friday.

"There's no evidence or any indication that the regulators laid off (Lincoln Savings)," said Sen. John McCain, an Arizona Republican who received $112,000 in campaign contributions from Keating's family and associates.

McCain was among five senators who met two years ago in the office of Sen. Dennis DeConcini, D-Ariz., to ask federal examiners why their probe of Lincoln Savings was taking so long.

The meeting was called after Keating, who had contributed large sums of money to each of the senators, had complained about the regulators.

However, since the meeting was revealed in September 1987, everyone involved has denied there was any intent to pressure regulators to act more favorably toward Keating's thrift.

"Nothing I said or conveyed in that meeting would give any impression of that sort," McCain said. "The purpose was to see that he was being treated fairly, not that he receive any special treatment."

Nevertheless, the senators involved faced scrutiny about their dealings with Keating.

McCain, for instance, was a co-sponsor of a 1985 House resolution that would have delayed a sweeping regulation to curb risky investments by institutions like Lincoln Savings.

In addition to the $112,000 for McCain, Keating had helped raise $40,000 in campaign funds for DeConcini, $41,000 for Sen. Alan Cranston, D-Calif; $34,000 for Sen. John Glenn, D-Ohio; and $76,000 for Sen. Donald Riegle, D-Mich.

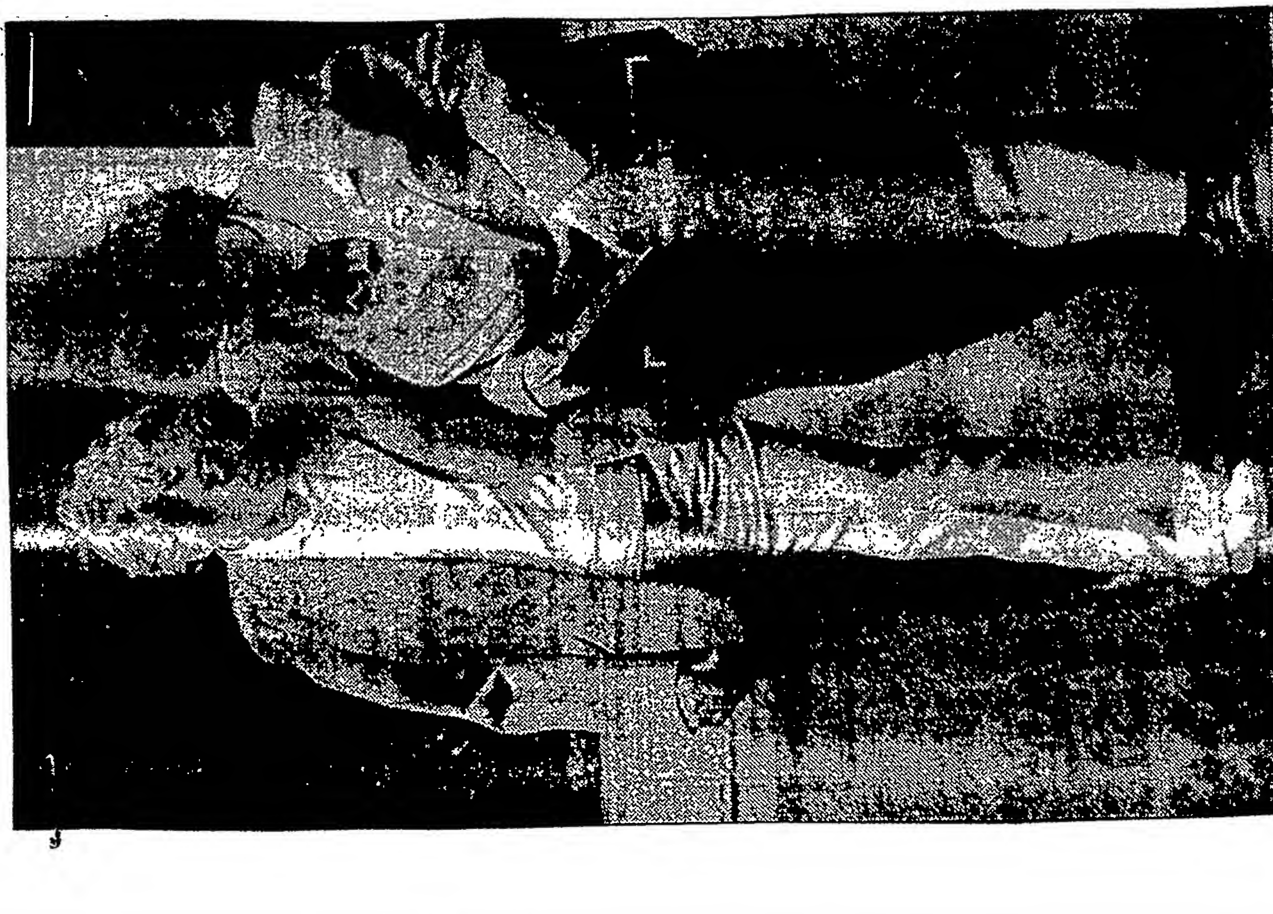
All five were involved in the April 1987 meeting, and publicity over the matter led Riegle, who is now chairman of the Senate Banking Committee, to return the funds he received.

McCain was the only one of the five who could be reached for comment late Friday, but others at the meeting have insisted that they were not trying to pressure regulators into laying off their probe of Lincoln Savings.

McCain said he has not spoken with Keating for at least six months but added that he felt badly about Keating's financial problems.

"I feel sorry for him and his employees," he said. "More importantly, I don't see how it could do anything but hurt our economy."

McCain added that he hopes an end to the national thrift crisis is in sight.



The Orange County Register via The Associated Press

Trudy Papson comforts her mother, Marilyn, who says all her savings are invested in an uninsured bond at Lincoln in Santa Ana, Calif.

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Lincoln S&L taken over by regulators

'Unsound'; battle looms over assets

By Lisa Morrell
The Arizona Republic

The federal government seized the largest subsidiary of American Continental Corp. on Friday, setting the stage for a major battle in U.S. Bankruptcy Court.

The confrontation will pit federal regulatory officials and American Continental of Phoenix in a legal war over many of the assets of the company's Lincoln Savings and Loan Association of Irvine, Calif.

CHAPTER 11: The strategy behind protection filing, F1

The government placed Lincoln in conservatorship Friday morning, saying that the S&L's assets had been substantially dissipated and that it was being operated in an "unsafe and unsound condition."

The Federal Home Loan Bank Board said Lincoln, with \$5.4 billion in assets, has only about \$20 million in capital.

One day earlier, American Continental and 11 of its subsidiaries filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. The filing involves many of Lincoln's subsidiary companies.

American Continental is headed

—See LINCOLN, page A8

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Lincoln S&L seized by U.S. regulators; asset battle looms

LINCOLN, *from page A1*

by Charles H. Keating Jr., who has been fighting with bank-board officials for at least three years.

Lincoln was the 42nd-largest thrift in the nation at the end of 1988 and has 29 branches. It is the second-biggest S&L that was technically solvent to be taken over by the government in the past month. Gibraltar Savings of Beverly Hills, Calif., was seized March 31.

Regulators stressed that Lincoln's branches will remain open as usual and that all deposits are guaranteed up to the $100,000 insurance limit.

Bank-board member Lawrence White painted a bleak picture of Lincoln's health.

"The place is insolvent," White said. "The assets are not adequate to cover the liabilities. In fact, the place is deeply insolvent."

Bert Ely, a thrift-industry consultant in Alexandria, Va., estimated the loss to the Federal Savings and Loan Insurance Corp. at more than $500 million from Lincoln.

Lincoln was placed in conservatorship, which means the regulators appoint management for the thrift. It does not wipe out financial interests of the shareholders and holders of the company's subordinated debt.

The bank board appointed the FSLIC as Lincoln's conservator, or manager, and contracted with the Federal Deposit Insurance Corp. to provide a managing agent to oversee Lincoln's operations.

Then the board named F. Roger Clark, a veteran thrift executive, as Lincoln's chief executive. He was a chief executive of Montfort Savings in Dallas when it was under a bank-board management program.

John Rousselot resigned as chairman and chief executive of Lincoln Savings on Friday. He had been elected to those positions just three days before.

After news broke of Lincoln's takeover, American Continental's stock price plunged $1, or 44 percent, to $1.25 a share. A total of 144,000 shares were traded in the over-the-counter market.

Earlier this week, the bank board demanded that American Continental agree to turn Lincoln Savings over to the FSLIC, which insures deposits of S&Ls. American Continental refused to comply with the demand.

The government's takeover of Lincoln deals a severe blow to American Continental. American Continental, after it bought Lincoln in 1984, used the deposits from the thrift to fund many of its developments and other real-estate projects, including the Phoenician Resort in Scottsdale and the Estrella master-planned community in Goodyear.

DEVELOPMENTS UNDER LINCOLN

Planned communities being developed in Arizona by Lincoln Savings or its subsidiaries. Book values are in millions of dollars as of Dec. 31, 1987.

Project	Location	Book value
Estrella	Goodyear	$76.0
Continental Ranch	Tucson	$32.1
Garden Lakes	Avondale	$20.3
Anderson Springs	Chandler	$8.3
Lakewood	Phoenix	$7.4
The Islands	Gilbert	$6.1

"I doubt if American Continental would have done nearly what it did do in terms of developing things and building things, had it not been for Lincoln," Ely said.

He said many developers in the early 1980s saw thrifts as a cheap source of funds for projects.

Risk-oriented projects have been a battleground between American Continental and federal regulators during the past three years.

A year ago, American Continental began trying to sell Lincoln.

Rousselot headed an investment group that was trying to buy the S&L for newly issued preferred stock with a face value of $200 million. In a last-ditch attempt to win approval of the deal, the group drastically revised its offer earlier this week. But the bank board flatly rejected the deal.

"There was insufficient capital or value being injected into this situation and there really wasn't a sale there," said M. Danny Wall, chairman of the bank board.

American Continental contends that the bank board's actions were "regrettable," said Mark Connally, a company spokesman.

"Ultimately, the taxpayer stands a risk of having to fund FSLIC for operating that institution, when it didn't have to happen," he said.

The government now has two options: find a buyer for the thrift or liquidate its assets, White said. Regulators usually opt to sell.

"We'd be thrilled if they did sell it," Connally said. "We've been trying to get them to do that for a year."

In that time, deals with three potential buyers have collapsed.

Federal thrift examiners moved in on Lincoln about 7 a.m. Friday. Federal officials were stationed to answer questions for the public at all of Lincoln's branches in southern California and at American Continental's headquarters on Camelback Road. About 20 thrift examiners began looking over the company's files at Lincoln's headquarters.

"When a thrift is seized, investigations as to any possible wrongdoing are standard," White said.

A statement from federal regulators indicated that "management appeared to operate Lincoln mainly for the benefit of American Continental [illegible] of the institution. It has repeatedly violated regulations relating to transactions with affiliates, used poor underwriting and has refused to follow supervisory directives."

Federal regulators will have to struggle in court with American Continental over some of Lincoln's assets that the company threw into its Chapter 11 bankruptcy-protection filing Thursday. The federal regulators will try to get those assets under their management at Lincoln.

The bank board's Wall said thrift officials will claim that "our authority under the law takes precedence over the Bankruptcy Code and/or these various assets should be considered as ours and in our control."

The Bankruptcy Court will attempt to sort out what is American Continental's to manage and what is the FSLIC's. A major question mark is the Phoenician Resort and the Crescent Hotel in Phoenix. The majority ownership of the properties belongs to a Lincoln subsidiary.

"The lawyers are really going to get rich on this one because of all the ties between Lincoln and American Continental," Ely said.

He said American Continental will be severely damaged by the loss of Lincoln, because that was its primary source of cash flow.

"My sense is American Continental ultimately will be liquidated," Ely said.

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SUBJECT: CHARLES KEATING, CHAIRMAN, AMERICAN CONTINENTAL CORPORATION, PHOENIX, ARIZONA; UNSUB; PRINCIPALS AND OFFICERS OF AMERICAN CONTINENTAL CORPORATION; UNSUB; PRINCIPALS AND OFFICERS OF LINCOLN SAVINGS AND LOAN, IRVINE, CALIFORNIA; ELECTION LAWS; OO: LOS ANGELES.

Rec Close 116 JF

LA HAS NO BASIS TO INVESTIGATE / JF per para 3.

REFERENCE IS MADE TO LOS ANGELES FACSIMILE TO FBIHQ DATED MARCH 21, 1989, AND TELCAL OF SSA [redacted] FBIHQ, TO SSRA [redacted] SANTA ANNA RESIDENT AGENCY ON MARCH 23, 1989.

b6
b7C

REFERENCED FACSIMILE SET FORTH ALLEGATIONS THAT CAPTIONED

56C-181-46

DESTRUCTION DATE 11/3/89
INITIAL JF
RETAIN
JUSTIFICATION

JF

SUBJECTS MAY HAVE VIOLATED VARIOUS ELECTION LAWS, AND A REQUEST THAT REFERENCED COMMUNICATION BE PRESENTED TO THE DEPARTMENT OF JUSTICE (DOJ) TO DETERMINE IF AN INVESTIGATION SHOULD BE CONDUCTED.

ON MARCH 23, 1989, INFORMATION CONTAINED IN REFERENCED COMMUNICATION WAS PROVIDED TO CRAIG DONSANTO, DIRECTOR, ELECTION CRIMES BRANCH, PUBLIC INTEGRITY SECTION, DOJ. UPON HIS REVIEW, MR. DONSANTO OPINED THAT BASED UPON FACTS SET FORTH IN REFERENCED COMMUNICATION THERE IS NO BASIS TO INITIATE AN INVESTIGATION FOR ELECTION LAW VIOLATIONS REGARDING CAPTIONED SUBJECTS.

ACCORDINGLY, REFERENCED FBIHQ TELCAL TO LOS ANGELES INSTRUCTED LOS ANGELES TO DISCONTINUE CAPTIONED INVESTIGATION.

MR. DONSANTO NOTED THAT HE HAS BEEN IN CONTACT WITH ASSISTANT UNITED STATES ATTORNEY (AUSA) [redacted] b3 b6 b7C
CENTRAL DISTRICT OF CALIFORNIA, WHO HAS OBTAINED FEDERAL GRAND JURY SUBPOENAS FOR [redacted] MR. DONSANTO ADVISED HE HAS INFORMED AUSA [redacted] OF HIS OPINION IN THE MATTER AND HAS ARRANGED

WITH AUSA [redacted] FOR A LIMITED COMPARISON OF [redacted] b3
[redacted] OBTAINED BY THE ABOVE b6 b7C
FEDERAL GRAND JURY SUBPOENAS, WITH FEDERAL ELECTION COMMISSION CAMPAIGN RECORDS. SHOULD THESE RECORDS DEVELOP PREDICATION FOR INITIATION OF A ELECTION LAW INVESTIGATION, MR. DONSANTO STATED HE WOULD ADVISE THIS BUREAU.

QUESTIONS REGARDING THIS MATTER SHOULD BE DIRECTED TO SSA [redacted] PUBLIC CORRUPTION UNIT, EXTENSION 5701.

BT

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NNNN